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August 4, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Application – Securities Act s. 48 Dealer - Exemption from s. 34(1)(a) requirement to be registered as a dealer to trade securities - A registered adviser wants relief from the dealer registration requirement so that it can directly trade securities for a registered dealer's clients - A registered adviser has contracted with a registered dealer to provide discretionary investment services to the dealer's clients. The client agrees that the dealer can hire the adviser to invest the client's money as described in a model portfolio created by the adviser, including re-balancing from time to time so that the client's portfolio stays true to the pre-established parameters of the model portfolio. The pre-established parameters cannot be changed without the client's permission. The adviser records its trading activity for the dealer's clients in a shared trade blotter. The dealer is responsible for maintenance and accuracy of the trade blotter. The adviser acknowledges its responsibility and liability for the trades it makes on behalf of the dealer's clients. The Mutual Fund Dealers Association is satisfied it has jurisdiction to oversee the trading activity. The MFDA Investor Protection Corporation coverage applies to these trades in the opinion of counsel for the MFDA IPC.

Applicable British Columbia Provisions

Securities Act, R.S.B.C.1996, c. 418, ss. 34(1)(a) and 48

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

and

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

and

In the Matter of RBC Asset Management Inc.

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the **Decision Maker**) in each of Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, Québec,

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New Brunswick, Nova Scotia, Newfoundland and Labrador, Prince Edward Island, Northwest Territories, Nunavut, and Yukon (the **Jurisdictions**) has received an application from RBC Asset Management Inc. (the **Applicant** or **RBC AM**) for a decision pursuant to the securities legislation of the Jurisdictions (the **Legislation**) seeking relief in each of the Jurisdictions from the dealer registration requirement in respect of any trades in securities of the Funds (as defined below) in accordance with the investment decisions made by the Applicant in its Investment Activities (as defined below) in connection with the Product (as defined and described below) distributed by the Royal Mutual Funds Inc. (**RMFI**).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the Ontario Securities Commission has acted as 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 Applicant:

1. RMFI is registered under the Legislation as a dealer in the category of mutual fund dealer (**MFD**) or the equivalent.
2. The Applicant is registered under the Legislation as an adviser in the categories of investment counsel and portfolio manager or the equivalent. The Applicant is also registered under the Act and Newfoundland as a dealer in the category of limited market dealer.
3. RMFI and the Applicant are affiliated entities.
4. RMFI's salespersons propose to distribute the RBC Managed Portfolios (the **Product**) to their clients (**clients**).
5. The Product consists of a number of model portfolios (the **Model Portfolios**), which together occupy successive portions of the investing spectrum from conservative, income-maintenance investing to aggressive growth investing.

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Each Model Portfolio is made up exclusively of units of RBC Private Pools or RBC Funds.

6. Any of the RBC Private Pools or RBC Funds that currently exist or that may be created in the future (the **Funds**) and that are used in the Program is and will be qualified under a simplified prospectus that has been received by the applicable securities regulators under the Legislation.
7. If a client is interested in the Product, the client completes an investor profile form (the **Form**). The Form is used by RMFI as a “know your client” form, to enable RMFI to consider the client’s financial circumstances, investment knowledge, investment objectives and risk tolerance, and thereby assist in determining an appropriate Model Portfolio for the client. From and based on the information provided in the Form, RMFI recommends one of the Model Portfolios as suitable for the client.
8. The client receives a description of the Model Portfolio selected by the client (the **Selected Model Portfolio**), completes the account application and enters into an agreement (the **Account Agreement**) with RMFI.
9. The series of units of the Funds that are available under the Program enable management fees to be paid by RMFI to RBC AM, as manager of the Funds, pursuant to an advisory agreement (the **Advisory Agreement**) between RMFI and the Applicant. No management fees will be charged by the Applicant directly to the Funds or to the clients. No sales charges or trailing commissions will be payable in respect of any sales, redemptions or fund switches, and each Fund will pay its own operating expenses. As a result, there will be no duplication of any fees.
10. The client agrees to pay RMFI a monthly fee outlined in the Account Agreement, which fee will be based on the net asset value of the client’s account and not on transactions effected in the client’s account. Fees could be changed from time to time, provided clients are given at least 30 days’ advance written notice.
11. The Account Agreement authorizes RMFI to permit RBC AM, pursuant to the Advisory Agreement, to invest client monies in accordance with the terms of the Selected Model Portfolio.
12. Pursuant to the Advisory Agreement, the Applicant is responsible for developing and managing the Model Portfolios. Each Model Portfolio is broken down into different asset classes (**Asset Classes**). Each Asset Class is allocated a permitted range (**Permitted Range**), being a minimum and

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maximum percentage of the Model Portfolio that can be allocated to Funds of a particular Asset Class. The Asset Classes and Permitted Ranges are disclosed to the client in the Selected Model Portfolio and cannot be changed without the client's prior approval.

13. The Applicant manages the Model Portfolios on a discretionary basis. In doing so, the Applicant determines a benchmark percentage (**Benchmark Percentage**) for each Asset Class, representing the target percentage within the Permitted Range, and adjusts that percentage at its discretion. The Applicant also uses its discretion in choosing which Funds will be used for each Asset Class, provided the involvement objective and strategies of any Fund are consistent with the Asset Class and any such Funds are listed in the Selected Model Portfolio for the client. The Applicant's actions will be carried out with a view to ensuring that the Model Portfolio continues to abide by the stated objectives. The above activities are herein defined as the **Investment Activities**.
14. RMFI will carry out trades in units of the Funds in connection with an investment of monies (an **Investment**) by the client in the Funds comprising the Selected Model Portfolio at the time of Investment. RBC AM will carry out trades in units of the Funds for a client that are necessary and incidental to its Investment Activities, other than trades relating to an Investment.
15. RBC AM is responsible for ensuring that the client monies are invested in accordance with the terms of the Selected Model Portfolio. Notwithstanding that there is no direct relationship between the client and RBC AM, the client will be entitled to treat RBC AM as if RBC AM were a party to the Account Agreement with respect to its responsibilities in this regard.
16. The client is provided with a simplified prospectus for the Funds on an annual basis. In addition, if and when new Funds are created and qualified under the simplified prospectus, and are intended to be used in the Model Portfolio, RMFI will provide clients of the Model Portfolio with a new or amended simplified prospectus which includes those new Funds prior to investing any of the Model Portfolio in such Funds.
17. In the absence of this Decision, the Applicant would have to be registered under the Legislation of each Jurisdiction as a dealer in the category of "mutual fund dealer" or "investment dealer" (or the equivalent) in order to carry out the trading activities permitted by this Decision.
18. In order to obtain registration under the Legislation of all of the Jurisdictions as a mutual fund dealer, the Applicant would be required to be a member of

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the Mutual Fund Dealers Association of Canada (the “**MFDA**”) except in Québec.

19. The MFDA has rules that govern its membership which would have the effect of precluding the Applicant from being a member of the MFDA if it continues to conduct its principal business of acting as a portfolio manager.

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 the Applicant is exempt from registration as a dealer under the Legislation with respect to the trades (other than trades related to Investments) that will be made by the Applicant in securities of the Funds in order to implement the investment decisions made by the Applicant in its Investment Activities, provided that the Applicant is at the time of the trade registered under the Legislation as an adviser in the category of portfolio manager (or the equivalent).

Paul M. Moore
Commissioner
Ontario Securities Commission

Harold P. Hands
Commissioner
Ontario Securities Commission