



MEMBERSHIP APPLICATION GUIDE

Mutual Fund Dealers Association of Canada
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1.0 Introduction

This Application Guide (the "Guide") contains information on various aspects of membership in the Mutual Fund Dealers Association of Canada (the "MFDA"), such as eligibility, fees, minimum requirements for membership, the membership process and ongoing obligations of Members.

The following schedules are attached at Section 2 and provide more detailed information on specific application requirements:

Schedule A – Member Fee Guidelines

Schedule B – Registration Information

Schedule C – Capital Requirements

Schedule D – Branch and Sub-branch Locations

Schedule E – Qualification of Individuals

Schedule F – Trade Names of Approved Persons

Schedule G – Agreement of Approved Person

Schedule H – Auditor Requirements

Schedule I – Subordinated Loan Agreement

Schedule J - Undertaking Regarding Retractable Preferred Shares

Schedule K – Policies and Procedures Manual requirements

The MFDA By-laws, Rules, Policies, Notices, Bulletins and Forms referred to in the Application Guide are located in the MFDA Rule Book (www.mfda.ca).

Applicants must submit a fully completed and signed application form along with all required supporting documents, the application checklist, and an application deposit.

2.0 Eligibility for Membership

A corporation or partnership is eligible for membership in the MFDA if:

- it is formed under Canadian federal, provincial or territorial law;
- it proposes to carry on business in Canada as a mutual fund dealer;
- it is registered or licensed in each jurisdiction in Canada where the nature of its business requires registration or licensing;

- it is in compliance with applicable securities legislation and the requirements of any securities regulatory authority having jurisdiction over it; and
- it will comply with the By-laws, Rules, Policies and Forms of the MFDA, as will its related Members, directors, partners, officers, employees and agents.

3.0 Membership

All Members are required to adhere to the MFDA By-laws, Rules, Policies and Forms. Members may elect to contract securities related business, duties or responsibilities to another Member of the MFDA. This arrangement is known as an Introducing/Carrying Dealer arrangement. For more information on the Introducing/Carrying Dealer arrangement, please refer to Rule 1.1.6. and MFDA Member Regulation Notice MR-0003 *Introducing/Carrying Dealer Arrangements*.

4.0 Fees

Application Fee

A non-refundable application deposit must be submitted with your application and will be applied to the annual membership fee upon acceptance into membership. The amount of the non-refundable deposit is:

- \$1,500 for a Level 1 Dealer
- \$3,000 for a Level 2 or 3 Dealer
- \$5,000 for a Level 4 Dealer

Please refer to Rule 3.1.1 for a description of the above categories of dealer.

Annual Membership Fee

An annual membership fee is required and is based on the assets under administration (“AUA”) of the Member. The annual membership fee is calculated annually but paid in quarterly installments.

An explanation as to how annual membership fees are calculated, including examples, can be found at **Schedule A**.

5.0 Requirements for Membership

In order to qualify for membership, an applicant must satisfy the MFDA's registration, financial compliance and sales compliance requirements. These are described briefly below:

Registration Requirements

Registration or licensing under applicable securities legislation as a mutual fund dealer is a prerequisite for membership in the MFDA. The applicant should obtain a mutual fund dealer license from the securities commission in each province or territory in which the applicant intends to do business. Applications for registration should be made directly to the applicable securities commission(s).

The applicant should submit a mutual fund dealer registration application to the relevant securities commission(s) at the same time it submits an application for membership in the MFDA. Note that the applicant will not be admitted to membership in the MFDA until the application for mutual fund dealer registration has been approved by the applicable securities commission(s).

Please refer to **Schedule B** for a list of the addresses and telephone numbers of the various provincial and territorial securities commissions.

Minimum Capital Requirements

An applicant must provide

- an audited MFDA Form 1 Financial Questionnaire and Report as at a date not more than 90 days prior to the date of application as well as its audited financial statements for the preceding three years, if applicable; and
- unaudited Financial Questionnaire and Report(s) for any month end(s) subsequent to the date of the audited FQR.

To be eligible for membership, the applicant must have minimum capital in the amount outlined in **Schedule C** sufficient risk adjusted capital and must not trigger any Early Warning Tests. At the time of MFDA staff's review of the application, staff will contact the applicant and may request that the applicant complete and submit an unaudited financial questionnaire and report for subsequent month end(s). The unaudited financial questionnaire should evidence the fact that the applicant maintains the required amount of capital.

An application that remains outstanding for greater than six months may require re-application by the applicant and/or another audited FQR as at a current period end.

An applicant's total financial statement capital can take the form of share capital or subordinated debt. If subordinated debt forms part of the applicant's total financial statement capital, an agreement in writing, in a form satisfactory to the MFDA must be provided in triplicate.

A sample form is attached as **Schedule I**. If the applicant's financial statement capital includes retractable preferred shares, an undertaking must be signed by the shareholder in a form satisfactory to the MFDA in order for it to be considered as capital for the purposes of the calculation of risk adjusted capital. A sample form of undertaking is attached at **Schedule J**. Please refer to Member Regulation Notice MR-0013 *Undertaking Regarding Retractable Preferred Shares* for guidance.

Related Member Guarantees

Each Member shall be responsible for and shall guarantee (in an amount equal to its total financial statement capital as determined in accordance with Form 1 *Financial Questionnaire and Report*) the obligations to clients incurred by each of its related Members (as defined in By-law 1) on the basis set out in Rule 3.2.4. However, Rule 3.2.4 is subject to a transition period until such time as the MFDA Investor Protection Corporation ("IPC") begins to provide coverage to clients of MFDA Members. Prior to Rule 3.2.4 becoming operative, the MFDA will publish a standard Related Member Guarantee form for use by Members.

Branch and Sub-branch Locations

An applicant must provide a list of all branches and sub-branches from which *any* dealer business of the Member is conducted in the form prescribed in **Schedule D**. A branch is defined as any location where 4 or more Approved Persons conduct dealer business, and a sub-branch is defined as any location with less than 4 Approved Persons. Member Regulation Notice MR-0014 *Supervision Requirements for Licensed Assistants at Branch Offices* provides additional guidance for determining the status of a location as a branch or sub-branch. If Approved Persons are supervised at the head office location, the head office location must also be listed as a branch location. If Approved Persons conduct dealer business from a home office location, the home office must be included on the list.

Approved Persons

Proficiency

Approved Persons must satisfy the proficiency standards identified in **Schedule E**.

Acknowledgement to abide by MFDA Rules

An applicant must acknowledge to the MFDA that it has received signed agreements from each of its Approved Persons in a form set out in **Schedule G** and will be required to produce such agreements if requested by the MFDA. Refer to Question 6(a) in the Membership Application. Applicants need not submit copies of the signed Schedule G with the Membership Application.

Use of Trade Names

In accordance with Rule 1.1.7, no Approved Person may carry on business on behalf of an applicant in a business or trade or style name that is not owned by the applicant or an affiliate of the applicant unless: (i) the applicant consents; and (ii) the Approved Person's name is used with the applicant's name in at least equal size in all materials communicated to clients or the public.

An applicant must provide a list of Approved Persons using a trade or business name other than the name of the applicant (refer to **Schedule F**).

Applicants are reminded that, subsequent to acceptance into membership, there is an on-going requirement to update Schedule F for additions and deletions of trade names used by Approved Persons. It is the responsibility of the Member to ensure the information filed with the MFDA remains current. Refer to Section 7 of the Application Guide "On-going Obligations of Membership".

Agent Agreements

If the applicant employs Approved Persons as agents, rather than employees, a sample copy of the agency agreement must be provided with the application. The applicant should ensure that the agency agreement complies with all of the requirements of Rule 1.1.5 prior to submitting it to the MFDA. Refer to Member Regulation Notice MR-0011 *Agency Agreements* for further guidance

If the applicant employs Approved Persons as employees, and has an employee agreement, the applicant must ensure that the agreement is not inconsistent with the requirements set out in Rule 1.1.4

Dual Occupations

An applicant's Approved Persons may be dually employed, provided the other gainful employment of the Approved Person meets all of the criteria outlined in Rule 1.2.1 (d). For example, the Approved Person may hold an insurance license, may be dually employed by a financial institution, or may conduct financial planning activities through an entity other than the applicant. It is essential that the applicant establish and maintain adequate written policies and procedures regarding the requirement for Approved Persons to obtain the approval of the applicant to conduct any outside business, and to ensure clear disclosure is provided to clients that the other employment is not the business of the applicant. Refer to Member Regulation Notice MR-0009 *Dual Occupations-Selling Deposit Instruments and Providing Non-Securities-related Financial Planning Services* for further guidance.

Books and Records

An applicant is required to have a system of books and records in order to properly identify its business transactions and financial information. The minimum requirements are set out in Rule 5. MFDA By-law No. 1 Section 11.2.3 requires that the application be accompanied by a report from the applicant's auditor to the effect that, based upon an

examination of the affairs of the applicant, the applicant keeps a proper system of books and records.

Daily Blotter

Prior to acceptance into membership, the applicant will be expected to produce a daily blotter. The applicant may be required to submit a sample printout of the daily blotter during the review of the application, and the blotter system may be tested during an on-site visit prior to membership acceptance. Refer to Rule 5.1(a) for minimum blotter requirements and MFDA Policy No.2 for daily supervision requirements that should be facilitated by the blotter.

Client Account Statements

The applicant must be able to produce a client account statement in accordance with the requirements set out in Rule 5.3. Applicants should also be familiar with Rule 2.8 (client communications) and Member Regulation Notice MR-0024 *Portfolio Summaries*. A sample client statement may be requested during the application review and the system used to produce client statements may be tested during the on-site visit prior to membership acceptance.

Trust Accounts

Level 3 and 4 applicants must submit a copy of their trust bank account statement evidencing that the account has been designated “in trust”. Prior to completing the application, the applicant must advise its financial institution in writing of the requirements of the trust account outlined in Rule 3.3.2(d). A copy of this written notice must be submitted with the application.

Other Books and Records

Some of the records that must be maintained by an applicant and that may be required to be produced during the membership application review include:

- accounting, trading and sales compliance records;
- data entry and output systems; and
- client complaint log.

Auditor

Letter of Acknowledgement

The applicant's audit engagement partner must complete and sign a Letter of Acknowledgement in the form attached as Schedule H.1. The applicant's auditor must review the Financial Questionnaire and Report, including notes, and the relevant sections of the MFDA Rules, By-laws, Policies and Forms and must acknowledge that he/she understands them as they apply to the applicant and that he/she will report in accordance with the relevant sections that apply to the auditor.

Report on Books and Records

In accordance with By-law No. 1 Section 11.2.3, the auditor must prepare a report to the effect that, based on the auditor's examination of the affairs of the applicant, the applicant keeps a proper system of books and records. This report must be submitted with the application. There is no on-going requirement for the auditor to report on the system of books and records after the applicant has been accepted into membership.

Insurance

An applicant is required to obtain a financial institution bond. Specific insurance requirements and minimum amounts are set out in MFDA Rule 4 and include the following:

- *requirement to obtain a "Notice of Termination to SRO" rider*
- *requirement to obtain an "Agent's Rider" if applicant conducts business through Approved Persons retained as agents, rather than employees*
- *requirement to obtain a "global" rider and comply with the requirements of Rule 4.7 if the bond covers other entities in addition to the applicant.*

Adequate insurance *must be in place prior to* an applicant being accepted into membership.

Internal Controls

An applicant is required to establish, implement and maintain adequate internal controls. Internal control policies are contained in the Rule Book.

Policies and Procedures

An applicant is required to establish supervisory procedures for dealing with clients that conform to prudent business practices. An applicant's policies and procedures manual must be submitted as part of the application package. Applicants should ensure the policies and procedures manual submitted with the application is complete and encompasses, at minimum, the topics outlined in Member Regulation Notice MR-0008 *Policies and Procedures Manual*. **Schedule K** must be completed and submitted with the application.

In order to demonstrate effective compliance with MFDA Rules, the applicant must show it has a system in place to monitor on-going compliance with the Rules.

Complaint Handling Procedures

Applicants must ensure they have adequately documented written policies and procedures for handling client complaints in accordance with MFDA Policy No. 3. Applicants must ensure they have established adequate written policies and procedures to ensure prompt reporting to the MFDA whenever the applicant or a partner, director, officer, salesperson, employee or agent of a Member is the subject of any client complaint involving allegations of theft or misappropriation of funds or securities, or of forgery. Refer to Bulletin #0050-M *Amendments to MFDA Rules and Policy No. 3 (Handling Client Complaints)* for further guidance.

Account Opening Documents and Disclosures

The following account opening documents and disclosures must be submitted with the application:

- ❑ New Account Application Form (if the New Account Application Form does not include know-your client (“KYC”) information, the KYC Form must also be submitted)
- ❑ Disclosure and Acknowledgement form with respect to Introducing/Carrying Dealer Relationship, if applicable. (Reference: Rule 1.1.6(b)(viii))
- ❑ Limited Trading Authorization form. (Reference: Rule 2.3.2, Member Regulation Notice MR-0012 *Revised Limited Trading Authorization Form and Guidelines*)
- ❑ Risks of Leveraging Disclosure Document. (Reference: Rule 2.6, Member Regulation Notice MR-0006 *Borrowing Money to Buy Securities*)
- ❑ Client Complaint Information disclosure (Reference: Member Regulation Notice MR-0020 *Client Complaint Information*)
- ❑ Dual Occupation disclosure for dually employed Approved Persons, if applicable (Reference: Rule 1.2.1(d)(vi), Member Regulation Notice MR-0009 *Dual Occupations- Selling Deposit Instruments and Providing Non-Securities-Related Financial Planning Services*).
- ❑ Written disclosure of Referral Arrangement(s), if applicable (Reference: Rule 2.4.2(b)(iv)).

Other Agreements/Arrangements

Copies of fully executed agreements or arrangements entered into by the applicant must be submitted, including the following:

- ❑ Introducing/Carrying Dealer agreement(s). If the applicant introduces accounts to another Member, it must enter into an Introducing/Carrying Dealer agreement with another MFDA Member in accordance with Rule 1.1.6.

- ❑ **Trust Agreement.** If the applicant acts or plans to act as an agent for a trustee in administering accounts of client self-directed plans, a copy of the fully executed agreement must be submitted.
- ❑ **Service Arrangements.** If the applicant engages another person or entity to provide services (for example the applicant may have a management agreement with a parent company), the arrangement must be evidenced in writing and must meet the requirements of Rule 1.1.3 (e). Note that this requirement does not apply to all service arrangements, only those that relate to MFDA Rules and requirements.
- ❑ **Referral Arrangements.** Referral Arrangements must be between the dealer and the other entity, and must be in writing. Referral Arrangements may not be entered into by Approved Persons and certain referral arrangements are not permitted. If the applicant is planning to enter into a referral arrangement, the applicant must ensure that the arrangement meets the requirements of MFDA Rule 2.4.2.

Trading Partners, Directors, and Officers and Compliance Officers

Proficiency

Trading partners, directors and officers and compliance officers must satisfy the proficiency standards identified in **Schedule E** in accordance with Rule 1.2.3.

Compliance Officer

A Member must designate a compliance officer (and one or more alternates) who reports to a member of senior management such as the CEO, CFO or COO, in accordance with Rule 2.5.2

The Compliance Officer, among other duties, must report on the status of compliance at the Member to the Board of Directors or Partners at least on an annual basis in accordance with Rule 2.5.2(b).

The alternate Compliance Officer(s) must meet the qualifications of compliance officer outlined in Rule 1.2.3.

Qualification of Branch Managers and Alternate Branch Managers

Branch managers (as well as alternate branch managers) must have completed the appropriate proficiency requirements identified in **Schedule E** at the time of application, in accordance with Rule 1.2.2

Business Plan

The applicant must prepare and submit a business plan with the application. The plan should address product, market, risks, growth and all other areas related to ensuring the success of the business.

6.0 Membership Application Review and Approval Process

Before a membership application is recommended by MFDA staff for approval by the MFDA Board of Directors (the "Board"), it will undergo an extensive review by MFDA staff. This will include a review and analysis of the information and documents submitted, discussions with the applicant's management and other personnel and may include an on-site visit to examine the applicant's premises, test key systems, interview key personnel and review any issues.

Factors that may impact or delay the review and processing of a membership application include:

- failure to provide complete answers to all questions on the Membership Application;
- failure to submit all required information and documents; or
- failure to respond to identified deficiencies in a timely manner.

When MFDA staff is satisfied that the application meets membership requirements, the application will be submitted to the Board for consideration. The Board will decide whether to

- approve the membership application
- approve the membership application, with terms and conditions or
- reject the application.

The applicant will be notified of the Board's decision in a Membership Letter shortly after the decision is made. Upon approval by the Board, the applicant will be admitted to membership when administrative matters, such as the payment of any remaining fees, have been finalized.

7.0 Ongoing Obligations of Membership

Once accepted into membership, the Member will be subject to on-going requirements. These requirements are outlined in the Membership Guide, which will be mailed to the applicant with the Membership Letter. The Membership Guide is also available on the MFDA website. Some of the on-going obligations are summarized below.

Regulatory Filings

Monthly and Annual Filings

Once accepted into MFDA membership, each Member is required to submit, in accordance with MFDA Rule 3.5.1, the following:

- an unaudited Monthly Financial Report (“MFR”) within 20 business days of each month end and
- an annual, audited Financial Questionnaire and Report (“FQR”) (MFDA Form 1) within 90 days of its fiscal year end.

The Monthly Financial Report is comprised of all components of the annual Financial Questionnaire and Report, namely Statements A through F, the Certificate of Partners or Directors, and Schedules 1-4.

Late Filing Penalties

The MFDA can levy fines for the failure of a Member or auditor to file any report, form or financial statements required under Rule 3. The penalties are described in Member Regulation Notice MR-0021 *Late Filing Fees*.

Electronic Filing of Financial Reports

The MFDA has a web-based system to permit Members to file the FQR and MFR electronically. Access to the Electronic Filing System will be granted and instructions provided once the applicant has been accepted into membership. Refer to MFDA Bulletin #0054-C *Electronic Filing System*.

Reporting of Material Changes

It is a Member’s obligation to ensure that the MFDA is promptly informed, on an ongoing basis, of any material changes to information that was originally submitted with the application. Members should refer to the MFDA Membership Guide (available on the MFDA website) for guidance on the changes that must be reported. Examples of material changes with respect to the Member include:

- change of name or address for service;
- addition or deletion of trade names used by the Member;
- change in registration or licensing with the relevant securities commission;
- changes in ownership and control (20% or more)**;
- change of auditor;
- change of partners/directors/officers and compliance officer(s);

- change to Chief Financial Officer and/or accounting personnel responsible for preparation of monthly and annual financial reports;
- reorganizations, mergers, amalgamations**;
- change in dealer level*;
- a charge or an indictment pursuant to criminal laws or securities legislation;
- civil proceedings;
- bankruptcy;
- judgment or garnishment; and
- change in, or refusal of, insurance bond.

* *requires prior approval of MFDA*

** *requires 30-day notification to, and prior approval of, MFDA*

MFDA staff should be consulted if there is any question as to whether a change is material.

Members should refer to the MFDA By-laws and Rules to determine specific approval and reporting requirements.

Training and Supervision

Members of the MFDA are required to create, implement and maintain a training and supervision program for newly licensed salespersons.

Please refer to Rule 1.2.1(c) and MFDA Policy No.1 - *New Salesperson Training and Supervision* - for further information on new salesperson training and supervision requirements.