



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

STRATEGIC PLAN 2015–2017



**Responsible Regulation in a
Dynamic Environment**

Vision Framework

MFDA Members and their Approved Persons provide the most accessible advice-driven distribution model to retail investors in Canada. Mutual funds are also the most commonly held security of retail investors. Accordingly, the MFDA's primary focus since its inception 15 years ago has been regulating the distribution of mutual funds to these investors.

VISION

We protect the investing public by:

- Delivering responsible and effective regulation
- Strengthening collaboration, knowledge and expertise
- Promoting investor confidence

GOAL

DELIVER RESPONSIBLE and EFFECTIVE REGULATION

STRENGTHEN COLLABORATION, KNOWLEDGE and EXPERTISE

PROMOTE INVESTOR CONFIDENCE

STRATEGY

We must proactively employ our regulatory expertise and use risk-based, balanced and transparent processes **so that** we are a responsible and effective regulator

We must engage the industry in sharing our collective knowledge and expertise **so that** together we achieve high standards of conduct

We must focus on improving the investor experience and providing investors with key information to make informed decisions **so that** they are well protected

OUTCOMES

- Appropriate balance between Member regulatory cost and investor protection
- Efficient and cost effective regulatory operations
- Proactive in identifying and addressing industry trends and regulatory issues
- Professional and expert staff

- Promote awareness and understanding of regulatory requirements
- Demonstrate value of compliance in risk management decisions
- Promote investor trust and confidence through high standards of conduct

- Improved investor knowledge, understanding and engagement
- Increased investor awareness of and confidence in the MFDA
- Increased regulatory protection and complaint resolution

KEY INITIATIVES

- Assess internal processes and improve efficiency and effectiveness
- Enhance risk assessment
- Identify and address emerging industry trends and issues
- Continue to enhance staff development, education and engagement

- Member education
- Stakeholder collaboration
- Approved Person education and proficiency standards

- Provide investors with access to meaningful information
- Partner with others for investor initiatives
- Improved processes for complaint resolution

The 2015-2017 Strategic Plan maintains the MFDA's direction and focus on collaboration, education and responsible regulation for the protection of investors while recognizing the need to adapt to a changing environment.



Stakeholder Input

In developing this Strategic Plan, we solicited input from all levels of MFDA staff, the Board of Directors, senior representatives of the Canadian Securities Administrators ("CSA"), industry associations, investor associations, and direct input from over 75% of our Members. We also reviewed the strategic plans of other securities regulators in Canada, the United States and globally with a view to ensuring we identified and considered all relevant issues and initiatives. MFDA senior management reviewed and considered the comments and suggestions of the various stakeholders. Overall stakeholders advised that the MFDA should maintain its strategic direction and continue our efforts to support or expand upon the following priorities which form the basis of the 2015-2017 Strategic Plan:

- **Collaborate with Stakeholders**
- **Deliver Responsible Regulation**
- **Provide Member and Approved Person Guidance and Education**
- **Develop Additional Resources for Investors**



Vision

We protect the investing public by:

- **Delivering responsible and effective regulation**
- **Strengthening collaboration, knowledge and expertise**
- **Promoting investor confidence**



Values

We believe that all our actions must be executed professionally and honestly.

We have INTEGRITY.

We believe that the best result is one that includes meaningful engagement of all stakeholders.

We COLLABORATE.

We believe that all our actions should be fair, balanced and practical while achieving appropriate outcomes.

We are REASONABLE.

Regulating in a Dynamic Environment

As a self-regulatory organization that oversees mutual fund dealers in Canada, we regulate the operations, standards of practice and business conduct of Members and Approved Persons with a focus on retail investors.

MFDA Members are responsible for managing a significant portion of the Canadian wealth management landscape overseeing more than half of the over \$1 trillion mutual fund assets in Canada. MFDA Members primarily service mass market retail investors who represent approximately 80% of Canadian households.

The MFDA operates in an environment that is constantly changing and evolving. We need to recognize opportunities and challenges in order to adapt and deliver responsible regulation in this dynamic environment. To accomplish our mandate, we must understand and adjust to circumstances that impact the securities regulatory regime, MFDA Members, their Approved Persons and their clients.

Regulatory Initiatives

The industry will be impacted by a number of major regulatory initiatives in the next several years. Phase 3 of the Point of Sale initiative and Phase 2 of the Client Relationship Model (“CRM2”) are underway and will provide investors critical information to make informed investment decisions. Complying with the new requirements, however, will take considerable effort and resources. Members will need to obtain and maintain vast amounts of data, develop systems to perform extensive calculations and produce new client reports, and deliver education to Approved Persons and clients to facilitate understanding of the new requirements. Through policy guidance and compliance activities, we will have to use our resources effectively to facilitate the transition to the new requirements.

The CSA have also released two Concept Papers relating to Mutual Fund Fees and a Client Best Interest Standard and continue to engage in projects to research these areas further. The outcome of these two initiatives could have a considerable impact on investors and the industry.

Additionally, the establishment of a Canadian Cooperative Capital Markets Regulatory System may also result in significant changes to the Canadian securities regulatory landscape. We will continue to monitor the development of these initiatives and participate, where appropriate.

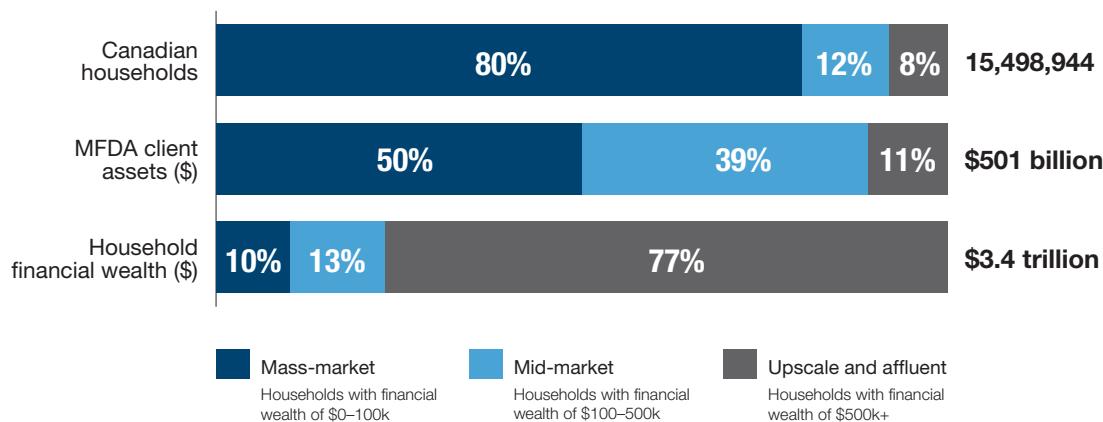
Industry Trends and Developments

Technological innovation, increased cost pressures, a mature market, and an aging population are all factors that will impact Member operations in years to come. MFDA regulation and approach must be collaborative, practical and sufficiently flexible to adapt to these conditions.

Member investment in technology solutions has substantially increased since the establishment of the MFDA. These solutions have resulted in more efficient compliance and supervisory systems and more user-friendly reporting and communications methods. Members are increasingly looking for technology solutions to reduce costs and address regulatory compliance. The MFDA must recognize and accommodate these innovations.

Costs to operate a dealer continue to rise resulting in fewer firms in the industry. With greater investor focus on compensation and rising operating costs, dealers will face increasing pressure in the years to come. The success or failure of any one Member may have potentially significant implications for Canadian retail investors, particularly, for smaller investors whose financial advice options may become limited. Small dealers are an important component of the MFDA membership and provide investors with choice especially in smaller regional markets that do not generate sufficient wealth to attract larger firms. Accordingly, the MFDA’s challenge will be to respond to investor needs while supporting a

Regulating in a Dynamic Environment



healthy and diverse membership. In addressing regulatory issues, we must continue to look for solutions that achieve the objective while avoiding undue regulatory costs.

The mature market and aging population will pose additional challenges in the years ahead. Future mutual fund industry growth rates will likely not be as significant as in the past as baby boomers retire and their portfolios move into the payout stage. This demographic shift will require Approved Persons to have a broad skill set to meet the diverse retirement goals and needs of their client base and to advise family units to capture the wealth transfer. Approved Persons are also part of the aging demographic and the pool of experienced qualified advisors in Canada is expected to decrease in the years ahead. Members will be challenged to find innovative ways to continue to deliver service to clients, particularly, retiring and senior clients at a time in their lives when obtaining suitable financial advice is critical. The MFDA will maintain appropriate standards of conduct through various educational initiatives and continued practical application of the MFDA Rulebook.

Given the value of financial advice and its importance to the financial well-being of Canadians, the MFDA is committed to improving the client experience. The MFDA has taken steps over the years to establish clear and objective standards and guidance regarding product due diligence, suitability standards, Member supervision and Know-Your-Client requirements. The MFDA intends on continuing its commitment to further education and guidance by developing plain-language material for use by investors to assist them in understanding products, performance, cost and the advisory process. Additionally, the MFDA intends on continuing its efforts to expand education and guidance to Members and Approved Persons through continuing education requirements, compliance guidance topics for Members, and outreach initiatives.

MFDA Strategic Vision

MFDA Members and their Approved Persons provide the most accessible advice-driven distribution model to retail investors in Canada.

Mutual funds are also the most commonly held security of retail investors. Accordingly, the MFDA's primary focus since its inception 15 years ago has been regulating the distribution of mutual funds to retail investors. Regardless of the changing environment, our mandate and focus remains clear and constant: protecting investors and maintaining public confidence in the Canadian mutual fund industry. We accomplish this by:

Delivering Responsible and Effective Regulation – We use risk-based, balanced and transparent processes and employ our regulatory expertise in a proactive manner in addressing industry developments to be a responsible and effective regulator.

Strengthening Collaboration, Knowledge and Expertise – We engage our stakeholders to share our collective expertise to ensure a culture of compliance.

Promoting Investor Confidence – We focus on providing access to information and improving the client relationship to better protect the investing public.



STRATEGIC GOAL #1

DELIVER RESPONSIBLE AND EFFECTIVE REGULATION

Our core regulatory functions and processes are intended to protect the investing public in an efficient and effective manner using a risk-based approach to allocate our resources in a manner that addresses risks on both a proactive basis and where harm has occurred to investors. We will continue to look for ways to enhance and refine the risk-based approaches to our compliance and enforcement activities as well as our policy initiatives to identify emerging risks and new developments that might require a regulatory response. We will continue to benchmark our regulatory processes to those of other regulators to ensure we apply fit-for-purpose regulatory best practices that reflect the unique business models of our Members and achieves our regulatory mandate.

An effective policy development process results in Rules that achieve their regulatory objective, address risks and protect investors while also avoiding undue regulatory costs to Members. We have taken steps to engage stakeholders to obtain input and comment early in the policy development process. This preliminary consultation process has allowed us to more fully assess the potential impact of proposed policies on the industry and investors and to consider whether there are alternative approaches to satisfying the objective of a regulatory requirement that should be considered. Going forward, we will continue to look for opportunities to engage stakeholders at an early stage in rule development and to regularly review our existing Rules, their interpretation and application to confirm that their regulatory objectives are being achieved in an effective and efficient manner.

Recruiting and retaining qualified, professional and motivated staff is critical to fulfilling our mandate and accomplishing our goals. We will continue to evaluate the skills and knowledge of our staff with a view to providing training in specific areas, as needed to support our mandate. We will continue to ensure that our staff is knowledgeable and well informed of Member operations and able to exercise reasonable judgment in assessing the application of regulatory requirements to various business models. Our staff is the foundation of the organization and the face of the MFDA with our Members so we must ensure that their knowledge and expertise keeps pace with the change and evolution amongst our Members and in the industry.

The Canadian capital markets are constantly changing and innovating through the introduction of new product offerings, services and business models. We will continue to monitor and proactively assess industry developments to ensure that investor protection and confidence is maintained. As governments and the securities regulators contemplate changes to regulatory structures in Canada, we will contribute our expertise and unique understanding of the mutual fund distribution channel to help make informed decisions to ensure that the Canadian capital markets are regulated in an effective and efficient manner that protects the investing public.

Outcomes

The outcomes of delivering responsible and effective regulation will be:

- **Appropriate balance between investor protection and Member regulatory costs:** Our regulatory practices, operations and requirements address our regulatory objectives while balancing them with the cost and disruption that might be caused in achieving them.
- **Efficient and cost effective regulatory operations:** In carrying out our regulatory functions, we use our resources in an efficient and cost effective manner.
- **Proactive in identifying and addressing industry trends and issues.** We are well positioned to anticipate, engage and, where appropriate, take regulatory action to address industry trends and issues.
- **Professional and expert staff.** MFDA staff continues to demonstrate extensive knowledge and expertise of regulatory requirements, Member operations and practices, and conducts itself in a professional manner in all interactions with stakeholders.

Key Initiatives

Assess Internal Processes and Improve Efficiency and Effectiveness

Stakeholders expect us to deploy our resources efficiently in a cost effective manner to achieve our regulatory objectives. In addressing regulatory issues, we must continue to look for solutions that achieve the objective while avoiding undue regulatory cost. We will continue to assess the effectiveness and impact of our Rules on an ongoing basis and identify areas for harmonization with rules and practices of other regulators. We will leverage technology to create operational efficiencies and provide further value to our membership by improving access to information and knowledge residing within the MFDA.

Enhance Risk Assessment

We must continue to direct our regulatory efforts to the most significant areas that have the greatest potential to cause real harm to investors. To this end, we will look for ways to enhance the risk-based practices in our regulatory activities to ensure that we are proactive in identifying issues and regulatory responses to address them, as needed.

Identify and Address Emerging Industry Trends and Issues

Maintaining a comprehensive view of what is happening in the capital markets is essential to effective regulation.

As capital markets continue to evolve, we must ensure that we are able to quickly identify and assess emerging industry trends and issues.

We must understand how these developments may impact the industry and investors and take appropriate regulatory action. We must also remain aware of the shifting regulatory landscape in Canada and ensure that we contribute our unique perspective and expertise of the mutual fund distribution channel to the discussion.

Continue to Enhance Staff Development, Education and Engagement

We must ensure that the knowledge and expertise of our staff keeps pace with the dynamic environment in which we regulate. We evaluate the skills and knowledge of our staff on an ongoing basis and provide them with training in specific areas, as needed, to support our mandate.



STRATEGIC GOAL #2

STRENGTHEN COLLABORATION, KNOWLEDGE AND EXPERTISE

Improving stakeholder awareness and understanding of regulatory requirements will assist our Members and Approved Persons to promote a culture of compliance within their organizations and in their dealings with clients. We will continue to work with Members to ensure that they understand regulatory requirements and that the requirements address risks to protect investors in a manner that does not cause undue regulatory cost.

Ensuring that Members are active participants in the policy development process is an important means of achieving Member acceptance of, and compliance with, regulatory requirements, which is why stakeholder consultation continues to be a key component of the MFDA policy development process. We have improved our consultation process through the use of discussion papers soliciting preliminary comments in advance of Rule development, extending the public comment period for material Rule proposals, and increasing Member awareness of the activities of the MFDA Policy Advisory Committee. We will continue to seek new ways to improve our ongoing consultation with stakeholders.

In an effort to expand Member knowledge and expertise, we will enhance our Member communications to provide Members with more information on broad regulatory policy developments. We will also provide industry data that will assist Members in gaining a better understanding of their business relative to the overall Canadian wealth management industry.

Sharing our expertise and providing opportunities to increase stakeholder knowledge will allow Members and Approved Persons to operate more effectively and benefit from the collective knowledge we share with each other. We will support Member and Approved Person compliance initiatives by acting as a resource for Member education and training processes.

We will focus on developing a continuing education standard applicable to over 82,000 Approved Persons of our Members. Our objective is to provide Members and Approved Persons with practical training, guidance and education relevant to issues they face in their day-to-day operations.

Outcomes

The outcomes of strengthened collaboration, knowledge and expertise will be:

- **Promote awareness and understanding of regulatory requirements:** Members are more aware and have a better understanding of regulatory requirements through engagement and involvement in the development of regulatory policy.
- **Demonstrate value of compliance in risk management decisions:** Members are better able to identify the value of compliance in their risk making decisions.
- **Promote investor trust and confidence through high standards of conduct:** Members who engage in high standards of conduct will help promote public trust and confidence.

Key Initiatives

Member Education

Member education has been and will continue to be an area of strategic focus for the MFDA. We will continue to develop best practice guidance and practical tools for Members to use as a resource in their day-to-day operations. We plan to broaden the scope of our training and education initiatives to reach more Approved Persons on more issues applicable to them.

Stakeholder Collaboration

MFDA Members and Approved Persons offer a diverse range of products and services beyond trading in mutual funds. Accordingly, MFDA initiatives may overlap with the objectives of other regulatory organizations and industry associations. To promote greater harmonization and regulatory efficiency, we will seek to collaborate with relevant stakeholders on initiatives of mutual interest.

Approved Person Education and Proficiency Standards

We will assess existing proficiency requirements to determine if they have kept pace with industry and regulatory developments as well as implementing a continuing education standard which will address such areas as product knowledge, practice management, compliance and ethics.

The MFDA will also act as a resource to Members and Approved Persons in their training and education efforts.



STRATEGIC GOAL #3

PROMOTE INVESTOR CONFIDENCE

MFDA regulatory activities are driven by the fundamental goals of protecting investors and ensuring investor confidence in the Canadian securities markets. As we continue to pursue this goal, we will provide investors with access to information that is intended to improve their experience. This will include identifying additional opportunities to inform investors that Members are regulated by the MFDA and include information that will assist investors in understanding how the MFDA operates to protect them.

We will also continue to focus on providing clients with meaningful information about their investments and the advice they receive.

We have partnered with several regulatory and industry organizations to develop and distribute information on key topics of interest relating to the investment process. We will broaden the scope of our partnerships and expand the issues on which we communicate information. We will deliver this information through multiple communication channels to increase access and the likelihood of it reaching investors.

We must understand the needs and realities of our Members clients to meet our investor protection mandate.

We have established processes to obtain input from investor groups on the risks and challenges they see for clients to supplement the information we learn about investors through our interactions with them in the course of our regulatory activities. This process provides valuable input to us during our consideration of policy initiatives. Going forward, we will seek to identify additional individuals or groups who have expertise in these areas and who can help us learn more on issues important to investors.

A key aspect of investor protection is ensuring Members follow robust complaint handling standards that require client complaints are dealt with in a fair and timely manner. We will continue to work with our Members by providing additional guidance and support to ensure that these standards continue to be met on an ongoing basis. In addition, we will continue to work with our regulatory partners to ensure that clients have access to an effective dispute resolution process that resolves matters in a timely manner in situations where clients and Members are not able to find a resolution to a client complaint.

Outcomes

The outcomes of investor confidence will be:

- **Improved investor knowledge, understanding and engagement:** Investors will have a better opportunity to learn about their investments and the advice they receive.
- **Increased investor awareness of and confidence in the MFDA:** Investors will have greater awareness of the MFDA and recognize the MFDA's role in protecting their interests.
- **Increased regulatory protection and complaint resolution:** Investors, and, in particular, vulnerable individuals, will be protected through regulatory efforts and through effective handling and resolution of client complaints.

Key Initiatives

Provide Investors with Access to Meaningful Information

We will develop additional materials for the public to explain who we are, what we do and to better explain the regulatory environment and protection offered when dealing with MFDA Members. We will enhance our communications to provide investors more meaningful educational materials distributed in a manner that ensures they are broadly available.

Partner with Others for Investor Initiatives

We have experience partnering with other organizations and individuals, both to obtain input from an investor perspective and to develop and distribute information on key topics of interest relating to the investment process. We will broaden the scope of our partnerships with regard to both of these functions.

Improved Processes for Complaint Resolution

We will ensure Members have robust complaint handling procedures to ensure client complaints are dealt with in a fair and timely manner. We will provide additional guidance and support to ensure that complaint handling standards continue to be met on an ongoing basis. We will continue to work with our regulatory partners to ensure that clients have access to an effective dispute resolution process for circumstances where clients are not able to resolve a complaint with a Member.



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