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MFDA Bulletin

Membership Information

For Distribution to Relevant Parties within your Firm

2015 Compliance and Member Education Priorities

COMPLIANCE

This section of the Bulletin highlights compliance issues and priorities that Members should be aware of in focusing their supervisory activities.

Fees and Charges

Fee Based Accounts

In 2013, the MFDA surveyed its Members to gather information regarding Members who offer fee-based accounts, the various compensation structures and the payment process. While there were no significant issues identified, Members have shown increasing interest in offering fee-based accounts and staff views this as an area of future growth. Accordingly, the MFDA will continue to monitor changes to Member fee arrangements.

Pre-Trade Disclosure

On February 11, 2011, MFDA Rule 2.4.4 (Transaction Fees or Charges) came into effect requiring disclosure to clients of any sales charge, service charge or any other fees or charges to be deducted in respect of the transaction (e.g. redemption charges, short term trading fees, etc.). Further changes to Rule 2.4.4 were made as part of the MFDA's Client Relationship Model Phase 1 Rule amendments. As of July 15, 2014, in addition to the above, where a client is purchasing a security, Members and Approved Persons must also disclose whether the security is sold on a deferred sales charge ("DSC") basis, the applicable DSC schedule, and any trailing commissions that may apply. Staff will be reviewing Member policies and practices for complying with Rule 2.4.4. As part of this review, staff will also determine the extent to which Members are currently using the Fund Facts document to meet their disclosure obligation under Rule 2.4.4.

Suitability of DSC Trades

Compliance staff will perform a targeted examination sweep of Member DSC trading activity to assess suitability of DSC trades. Staff will ask Members to submit trading data and will focus on redemptions resulting in redemption charges and DSC purchases that may be unsuitable given the client age and time horizon.

Updating Know Your Client (KYC) Information

While it is important to conduct a thorough initial assessment of a client's KYC information, it is also important that the information is kept up to date. The practice of updating KYC information can be useful not only to determine if the client's attitude toward risk or capacity to withstand losses has changed, but also to help clients stay focused on their financial goals and adhere to their long-term investment plans despite market volatility. In 2015, staff will review Member policies and practices to ensure KYC is current when making recommendations and performing suitability assessments.

Intermediary Arrangements

In March 2014, the MFDA surveyed its Members regarding their business arrangements with intermediaries. Members were asked to perform a reconciliation of the assets held in intermediary client accounts and to investigate and report exceptions to the MFDA. In 2015, staff will continue to follow-up with Members to ensure that appropriate action was taken to address exceptions and to review the Member's reconciliation practices.

Seniors – Titles, Advertising and Marketing

The MFDA continues to be focused on protecting seniors in its compliance and enforcement activities. Members' supervisory activities should also consider issues impacting senior investors and other vulnerable clients. In particular, titles and advertising and marketing materials that target seniors should be subject to thorough review to ensure they are not misleading.

MEMBER EDUCATION

Since the inception of the Member Education Department, staff has conducted over 55 presentations at various Member and industry events on such topics as senior investors, outside business activities, leveraging and Enforcement trends and cases. Member Education staff is also working with staff from the Ontario Securities Commission and the Investment Industry Regulatory Organization of Canada on the Joint OSC Mystery Shopping project. Education of Members and Approved Persons continues to be a focus for the MFDA and some of the key educational initiatives for 2015 are outlined below:

Continuing Education (CE)

In 2014, the MFDA surveyed its Members to gather information regarding their internal training and education programs. The survey results identified a wide variety of Member practices in this area. While MFDA Approved Persons may currently be subject to a continuing education requirement through other licenses or accreditations held, the MFDA will establish a CE requirement to harmonize industry practices and create minimum standards designed to update Approved Person skills and knowledge. Other CE programs will be reviewed in the development of the MFDA's requirements to avoid unnecessary duplication. A working group has been established to assist in the development of a discussion document to be issued publicly to obtain broad stakeholder input on all aspects of a CE program. The feedback received will be used in future policy initiatives.

Exchange Traded Funds (ETFs)

MFDA Members can trade in securities that meet the definition of a "mutual fund" under securities legislation, which includes certain ETFs. However, transacting in ETFs is very different than trading in non-exchange traded mutual funds. Accordingly, Approved Persons who want to trade in ETFs may require additional proficiency. The MFDA will be developing proficiency standards for trading in ETFs. A working group has been established and the results of the working group discussion will be used in future policy initiatives.

Seniors Summit

The protection of seniors is a strategic initiative and area of focus for the MFDA. In October 2013, the MFDA hosted its first Seniors Summit for MFDA Members. Speakers representing both industry participants and senior investors discussed various topics of concern related to seniors. The MFDA will be hosting a second Seniors Summit for MFDA Members in October 2015 where expert panelists will discuss current issues regarding seniors from a regulatory, industry, social and legal perspective.

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