



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

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MFDA Bulletin

Membership Information

For Distribution to Relevant Parties within your Firm

2016 Year in Review and 2017 Initiatives

This document summarizes significant Mutual Fund Dealers Association of Canada (“MFDA”) regulatory activities and initiatives undertaken in 2016 and some key initiatives for 2017. Readers can access further information located on the MFDA website by clicking on the links that appear throughout the document.

MEMBER EDUCATION AND INITIATIVES

Member and Industry Events

In 2016, MFDA staff presented at 24 events to provide education and guidance on a number of key regulatory topics including senior investor issues, outside activities, suitability of fees, collection and supervision of KYC information, CRM2 implementation, and branch review programs. Members continue to show interest in having MFDA staff directly communicate with their supervisory staff and salesforce. We believe MFDA staff participation in Member and industry events is an effective means to support Members in building a culture of compliance within their organizations.

Continuing Education

In January 2017, the MFDA issued a second [consultation document](#) designed to solicit feedback on Rule and Policy proposals, as well as other related matters, regarding the implementation of a continuing education (“CE”) requirement for Approved Persons. The Rule and Policy proposals considered the comments received from the initial consultation completed in 2015.

The MFDA intends to consider the comments received and will finalize, bring forward, and publish for comment its Rule/Policy proposals in this area in accordance with the MFDA's regular Rule development process. The MFDA also intends to continue the development and implementation of a system to administer the CE program.

Client Research Project

On June 3, 2016, the MFDA issued a mandatory [request to the membership](#) to provide client specific data with a deadline to respond by September 30, 2016. Upon receipt of the submissions, MFDA staff undertook an extensive validation, normalization and anonymization process. Staff also researched fund positions reported and connected them with their respective fund codes, Canadian Investment Funds Standards Committee asset category, risk rating and load-type. MFDA collected data on approximately 9 million households, 16 million accounts, and 38 million investment positions in over 61,000 different products. The data will be used by MFDA staff to assist in enhancing our risk-based approach to regulation and may also be used to establish a baseline for future research. The data will be used to assess the impact of changes in regulatory policy including the impact of a ban on embedded mutual fund compensation to investors, advisors and Members. MFDA staff anticipate publishing the aggregated research data in the Spring of 2017.

Coordination with Insurance Regulators

In 2016, MFDA staff participated in consultations with the Canadian Council of Insurance Regulators on potential gaps in the regulatory frameworks of segregated funds and mutual funds. Staff also worked with provincial securities insurance regulators on strengthening information sharing arrangements and coordinating enforcement approaches with regard to dually licensed individuals.

SALES COMPLIANCE

Suitability

MFDA compliance examinations include extensive testing of suitability and the know-your-client ("KYC") process. In 2016, we made enhancements to our approach to suitability testing to allow us to focus very specifically on transactions that pose a higher risk of being unsuitable. These enhancements also support our strategic priorities including protecting seniors from unsuitable advice. This risk-based approach has been highly effective in identifying certain issues including issues with concentration risk, suitability of deferred sales charge funds and concerns with uniformity of KYC information. Suitability will continue to be the primary area of focus in our examinations and we expect Members to have adequate procedures to detect and prevent KYC and suitability issues.

Review of Compensation, Incentives and Conflicts of Interest

In 2016, MFDA compliance staff performed a targeted review of Member compensation and incentive programs. The objectives of the MFDA review were to gain a more detailed

understanding of Member compensation and incentive programs, assess compliance with certain sections of National Instrument 81-105 (Mutual Fund Sales Practices) and identify any compensation or incentive practices that might lead to mis-selling or unsuitable advice. We issued a [report](#) on December 15, 2016 that describes the key findings from our review and our next steps.

As noted in our report, we will continue to assess Member firms' compensation practices and internal controls to manage conflicts through our regular examinations and we will take further regulatory action where warranted.

Fee-Based Accounts

Fee-based accounts are becoming increasingly popular and can, in certain cases, offer advantages for advisors and clients. However, firms need to have adequate internal controls to properly administer these accounts, accurately calculate fees and ensure that no double-dipping occurs. Our examinations will include focused testing of fee-based accounts to assess the adequacy of these internal controls.

CRM2

The implementation of CRM2 has resulted in significant changes to client reporting, including requirements to provide disclosure of charges and compensation and performance reporting. Our 2017 examinations will include specific testing focused on these new requirements. We will also examine the compensation disclosure of Members who are integrated with affiliated fund managers and do not directly receive commission payments. Furthermore, we will continue to provide guidance to Members to assist firms as they seek to enhance client reporting and comply with the new requirements.

FINANCIAL COMPLIANCE

Review of Auditor Working Papers

In 2016, the MFDA commenced a new risk-based auditor working paper review cycle. All Members' auditors will be subject to a review of their working papers at least once during the 4-year period ending December 31, 2019. However, where MFDA staff identify repeat findings from prior reviews and/or the auditor may not have adequately addressed the specific audit requirements for an MFDA Member firm, a review of the auditors' working papers will be performed again on the following year's audit engagement.

Cybersecurity

On May 19, 2016, MFDA staff issued MFDA Bulletin #0690-C Cybersecurity to enhance Member awareness and understanding of cybersecurity issues and resources, and to provide guidance to Members regarding the development and implementation of cybersecurity procedures and controls.

In 2017, MFDA has retained a cybersecurity consultant to prepare and administer a cybersecurity risk assessment questionnaire which is intended to obtain information from, and provide feedback to, Members as it relates to their preparedness to address cybersecurity risks and potential incidents that may occur. A mandatory questionnaire will be issued to all Members in March 2017. Individual reports will then be prepared and issued to each Member, providing guidance in areas where risk has been identified.

ENFORCEMENT

Disciplinary Proceedings

The MFDA commenced 111 disciplinary proceedings in 2016, which is the highest number of cases commenced in one year by the MFDA. 52 of those cases utilized the streamlined bulk track hearing process. The MFDA concluded 85 disciplinary proceedings during the course of the year, which is also a historical high. Additional information will be published in the 2016 MFDA Annual Enforcement Report.

Member Cases

The MFDA commenced 11 disciplinary proceedings against Members in 2016. The types of conduct alleged included, for example, failure to adequately supervise Approved Persons in relation to investment and leveraging recommendations, outside activity, and the appointment of Approved Persons as power of attorney and executor of clients. Other types of activity included failing to fairly handle client complaints and, at the Member level, conducting securities related business outside the books and records of the Member. We will continue to review the adequacy of Member supervision in all cases, and to take formal disciplinary action where appropriate.

Signature Falsification

Signature falsification continues to be a priority for MFDA Enforcement. Of the 52 cases that utilized the bulk track hearing process, 47 involved signature falsification. The MFDA will continue to use the bulk track hearing process, which includes the use of a Duty Panel to process multiple hearings before a single Hearing Panel at one sitting, to deal with these cases.

In January 2017, staff issued a revised [MFDA Staff Notice – 0066 Signature Falsification](#) which reviews background information on signature falsification and outlines actions that should be taken by Members and Approved Persons to detect, address, and prevent signature falsification. The Notice expands on the information and guidance set out in MFDA Staff Notice – 0066 – *Pre-Signed Forms* and in [MFDA Bulletin #0661-E – Signature Falsification](#) issued October 2, 2015.

Suitability Paper

In January 2017 staff issued a research [paper](#) on Canadian regulatory decisions on suitability. The paper summarizes principles from decisions of CSA and SRO hearing panels relating to the activity of the Approved Persons. The purpose of the paper is to serve as a resource for Members

and Approved Persons, and assist them with understanding how the suitability requirement has been interpreted in securities regulatory cases.

POLICY

MFDA Rule Amendments – Use of the Title “Financial Planner”

In 2016, MFDA participated in consultations with the Ontario Expert Committee regarding its review of the regulation of financial planners and financial advice. The MFDA shares the concerns of the Ontario Expert Committee regarding the lack of regulatory standards regarding financial planning. Accordingly, the MFDA has proposed regulatory requirements that would require all Approved Persons that use the “financial planner” title to adhere to minimum proficiency standards.

On January 12, 2016, MFDA issued a [summary of comments](#) on MFDA Bulletin #0656-P *Consultation Paper on Standards for Use of the Title “Financial Planner”*. The purpose of the Consultation Paper was to seek stakeholder feedback on proposed amendments to MFDA Rules that would prohibit Approved Persons from using the title “Financial Planner” unless they have the appropriate proficiency. A total of 30 submissions were received from MFDA Members, Approved Persons, education service providers, and investor and industry associations.

MFDA staff considered the comments received and developed [proposed amendments](#) to MFDA Rule 1.2.5 (Misleading Business Titles Prohibited) which were published for comment on October 27, 2016. The comment period ended on January 25, 2017. MFDA staff is currently reviewing the submissions received.

MFDA Rule 2.3 (Power of Attorney/Limited Trading Authorization)

On January 19, 2017, MFDA staff published [Bulletin #0712-P](#) *Approval of Amendments to Rule 2.3 (Power of Attorney/Limited Trading Authorization/Discretionary Trading)*.

MFDA Policy No. 8 - Proficiency Standard for Approved Persons Selling Exchange Traded Funds (“ETFs”)

On June 30, 2016, the MFDA issued for public comment [MFDA Policy No. 8 - Proficiency Standard for Approved Persons Selling Exchange Traded Funds \(“ETFs”\)](#). MFDA Policy No. 8 would establish minimum standards in respect of proficiency for Approved Persons trading in ETFs. The MFDA received six comment letters. All commenters expressed general support for, and agreement with, the minimum standards adopted under the Policy. The proposed Policy is currently awaiting approval/non-objection by the Recognizing Regulators.

INVESTOR EDUCATION INITIATIVES

Point of Sale 3/Fund Facts

In February 2016, MFDA staff published a [brochure](#) to raise investor awareness regarding the change in the timing of delivery of Fund Facts to pre-trade. The brochure was created in a format to enable Members to include the brochure in clients' quarterly statements and other mailings.

Selecting an Advisor

In September 2016, the MFDA published a [brochure](#) entitled *Selecting an Advisor* which explains important aspects of the advisory process that clients should understand before they select an advisor and invest. Topics covered in the brochure include advisor service levels, compensation structures, and the responsibilities of advisors and clients.

Investor Guide to Compensation and Performance Reports

In December 2016, the MFDA published the [MFDA Investor Guide to Compensation and Performance Reports](#) which provides investors with information on the new reports that they will receive under the CRM2 regulatory initiative. The *Investor Guide* uses sample reports created by the MFDA to provide an overview of the new reports, and includes a *Fee and Charges Glossary* to help investors understand the terminology related to fees and cost that they may see on the compensation report.

MFDA Website Redesign

In 2016, the MFDA launched a redesigned website. The updated site provides for a new design and updated features for display on mobile devices and accessibility.

Investor Education

In 2017, the MFDA will produce investor webcasts on various topics related to investor education and protection and will continue to publish investor education materials.

Members are encouraged to contact Ken Woodard, Director of Membership Services at 416-943-4602 should they have any questions or wish to discuss any of the topics set out in this Bulletin.

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