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# **MFDA Bulletin**

## **Member Information**

**For Distribution to Relevant Parties within your Firm**

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## **MFDA Initiatives and Priorities – 2019**

This bulletin summarizes key MFDA regulatory initiatives and Compliance, Member Education, Investor Education, Enforcement and Policy Priorities for 2019. Readers can access further information located on the MFDA website by clicking on the links that appear throughout the document.

### **1. Key MFDA Initiatives**

The following is an overview of key initiatives under the MFDA Strategic Plan (2018-2022) in furtherance of the goals of innovate, collaborate and educate and update.

#### **MFDA Member Outreach Initiative**

As part of the MFDA's 2018-2022 Strategic Plan, the MFDA launched its Member Outreach Initiative to obtain Member feedback on a wide variety of matters, including issues to discuss with senior management, areas for additional guidance and interest in participating in focus groups (See [MFDA Bulletin #0754 - M](#)). MFDA staff completed calls to Members in November 2018. MFDA staff received feedback from the CCOs of 88 Members. Members requested additional guidance with respect to senior investors, in particular, KYC practices, suitability and supervision, and current CSA initiatives. A majority of Members also expressed interest in participating in a focus group. Over the next several months, we will continue the consultation process and address issues raised in accordance with the manner preferred by Members, such as focus groups or individual meetings.

#### **Innovation Outreach and Collaboration**

Members are, increasingly, adopting new technologies, which allow them to enhance operational efficiencies and offer new products and services to clients. The MFDA supports such innovation

provided that issues related to investor protection, risk management, and the safety/security of client personal information continue to be appropriately addressed.

We continue to encourage Members to proactively collaborate with MFDA staff to ensure the successful implementation of new technology. Members who would like to provide MFDA staff with a demonstration or who would like to discuss their plans to implement new technology are invited to contact their Compliance Manager to make the necessary arrangements.

## **Investor Outreach**

Investors are key stakeholders for the MFDA. We are committed to finding ways to improve and enhance our collaboration and communication with investors, investor advocates, and organizations involved in investor education, outreach and the protection of vulnerable persons. Such engagement is intended to:

- provide MFDA staff with information regarding the investor experience;
- assist investors in understanding the financial services industry, different investment products, and how investors can protect themselves from fraud/misconduct; and
- provide individuals and organizations with an opportunity to dialogue with MFDA staff, give input on MFDA policy initiatives, and share views on issues affecting Canadian investors.

The MFDA will continue to broaden the scope of investors and investor advocates that we consult and collaborate with.

In addition, the MFDA we will continue to develop tools and guides for investors with a focus on providing experiential learning and will enhance the seniors section of the MFDA website.

## **MFDA Rule Review**

In furtherance of the goals of innovate and update under the MFDA Strategic Plan, MFDA staff has begun to review the MFDA's regulatory requirements to ensure that the current Rules remain sufficiently flexible and facilitate emerging technology and business models. We will amend our Rules where we have identified unnecessary barriers to innovation.

The MFDA will also review its regulatory requirements with a view to promoting greater clarity and ease of use of the MFDA Rulebook. This will involve reviewing to identify any duplicative, obsolete and unnecessary requirements as well as re-organizing/reformatting the Rules and By-laws in a more logical manner.

The MFDA plans to solicit input from our various stakeholders to identify areas for potential amendment through meetings with individual Members and investor advocates, focus groups, meetings with industry associations and through the MFDA Policy Advisory Committee.

## **2. MFDA Compliance and Member Education Priorities**

### **MFDA Continuing Education**

On March 22, 2018, the CSA published, for a 90-day public comment period, proposed MFDA continuing education requirements (see [MFDA Bulletin #0743-P](#)). These proposals were developed and refined based on prior work and public consultations done between 2014 and 2017 (see MFDA Bulletins [#0619-M](#), [#0666-P](#) and [#0730-P](#)). Fifteen submissions from Members and investor and industry associations were received in response to the request for comments. The proposed new MFDA Rule and Policy are currently under review by the CSA. In the next year, the MFDA will finalize the Rule and Policy and engage in further consultation and collaboration with industry stakeholders relating to the accreditation process. MFDA staff will also continue with the development of the CE tracking system, which will include extensive testing and training for Members, advisors and education providers.

### **Client Research Project**

The 2016 MFDA Client Research Project provided the MFDA with valuable information and insight into Members' business, their Approved Persons and their clients. In order to support our ongoing compliance efforts, on April 11, 2018, the MFDA issued a Bulletin stating our intention to conduct a second Client Research Project (see [MFDA Bulletin #0746-C](#)). The Bulletin detailed the mandatory data request, including new Performance Reporting and Charges and Other Compensation data, and solicited feedback from Members on providing the data. On July 9, 2018, the MFDA issued [MFDA Bulletin #0755-C](#) summarizing the comments received and next steps. Commenters expressed general support for the project with some submissions seeking additional information and/or clarification on certain aspects of the project. A mandatory request to Members was issued November 29, 2018 for data extraction using values as at December 31, 2018. The deadline to provide the data is March 15, 2019.

### **Approved Persons Sweep**

In 2018, we commenced an Approved Person sweep utilizing information obtained from the Client Research Project. This initiative is part of our continued efforts to enhance suitability testing in our examinations by further utilizing technology and data to help identify patterns or trends, and target issues such as concentration risk and unsuitable investments for seniors. We will soon complete the review of a sample of Approved Persons and will address any findings with the respective Members. We also intend to issue a report to all Members summarizing our findings and recommendations by spring 2019.

### **Know Your Client (KYC) Information**

During the Approved Person Sweep and our ongoing compliance examinations we have identified instances where Approved Persons have a pattern of uniform KYC information. In these cases, all or nearly all clients have similar or identical information recorded for risk tolerance, investment objectives and time horizon. We will continue to focus on these issues in our examinations. Members should review their Approved Persons to detect any such patterns in their documented KYC information and take steps as necessary to reassess the KYC information where concerns are identified.

## **Conflicts of Interest and Compensation**

On December 15, 2016, the MFDA issued a report (See [MFDA Bulletin #0705-C](#)) summarizing the results of its review of all Member compensation and incentive programs including assessing compliance with certain sections of National Instrument 81-105 (Mutual Fund Sales Practices). Our regular compliance examinations also include detailed reviews of Member compensation and incentive practices.

In 2018, the MFDA commenced a review of Member policies and procedures relating to Approved Persons' receipt of promotional items from mutual fund companies or participation in promotional activities that are funded by mutual fund companies. We expect to issue a report of our findings and recommendations this year.

## **Cybersecurity**

In September 2017, the MFDA issued reports to Members that provided individualized feedback on their cybersecurity profiles. These reports were based on their responses to a mandatory cybersecurity survey, which was included in the MFDA's annual Member survey sent to Members in March 2017. Supporting Members in their effort to address cybersecurity risks continues to be a focus for the MFDA.

As the next step, in 2018, MFDA staff engaged the services of a consultant to perform and provide individualized assessments and recommendations of each Member's cybersecurity risks and related internal controls, on a voluntary basis. The focus of this phase of the initiative is the small to medium-sized Members that have been identified as requiring additional support based on the results of the 2017 survey. During 2019, MFDA staff will continue contacting Members to provide them with an overview of the cybersecurity assessment program being offered and, where accepted, with an introduction to the consultant who will perform the Member engagements. Members that participate in this initiative will receive a comprehensive report from the consultant which will assist them in focusing resources, if necessary, on areas of greatest risk.

## **MFDA Seniors Summit**

In the fall of 2019, the MFDA will be holding its third Seniors Summit for Members. The Seniors Summit will build upon the foundation set by the previous two Seniors Summits and provide Members with guidance and updates on topics related to best serving and protecting seniors, such as the changing nature of advice as clients move into the de-accumulation phase and updates on regulatory initiatives intended to protect senior clients

## **3. MFDA Enforcement Priorities**

The following case types will continue to receive priority from the MFDA, given the level of potential client harm:

- Supervision by Members, Branch Managers, Ultimate Designated Person and other Member Personnel
- Securities and other business outside the Member

- Suitability of investment and leveraging recommendations, including concentration of investments and suitability of compensation structures
- Complaint handling
- Cases involving seniors and other vulnerable groups
- Abusive sales practices, including theft, fraud, personal financial dealings, misrepresentations and unauthorized and discretionary trading

## **4. MFDA Policy Priorities**

### **Expanding Cost Reporting Requirements**

On April 19, 2018, the MFDA published for a 90-day comment period, a Discussion Paper (see [MFDA Bulletin #0748-P](#)) on Expanded Cost Reporting, the purpose of which was to promote further discussion in respect of expanded cost reporting requirements under Rule 5.3.3. Twenty-seven submissions from Members and investor and industry associations were received in response to the request for comments. On November 20, 2018, MFDA staff issued a Bulletin (see [MFDA Bulletin #0764-P](#)) providing a summary of the public comments and response of MFDA staff. Total cost reporting, provided on a consolidated basis, will be more helpful to investors, and communication between regulators will be an important part of exploring options and developing potential future directions for this initiative.

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