



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

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# **MFDA Bulletin**

## **Policy**

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

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### **Capital Markets Modernization Taskforce Final Report – SRO Recommendations**

On January 22, 2021, Ontario’s Capital Markets Modernization Taskforce (the Taskforce) issued its [final report](#) (the Final Report), which outlines 74 recommendations to modernize the province’s capital markets. The Final Report sets out specific recommendations for improving the current SRO framework in Canada (*recommendations 9-11*).

In making their SRO framework recommendations the Taskforce recognized the CSA’s ongoing process to review the regulatory framework for SROs ([CSA Consultation Paper 25-402 - Consultation on the Self-Regulatory Organization Framework](#)) and recommends that following its consultation, the CSA adopt the following recommendations as summarized below:

- Move to a new single SRO that can eventually oversee all advisory firms under a strengthened accountability framework (i.e. mutual fund dealers, investment dealers, portfolio managers, exempt market dealers, scholarship plan dealers).
- Apply a two-phased implementation approach to create the new single SRO.
  - **Phase I** - In the immediate term, create a new single SRO, for investment dealers and mutual fund dealers, with an enhanced accountability framework which includes increased oversight by statutory regulators and governance enhancements. Key features of the enhanced governance framework include:
    - a limit of 15 directors (including the CEO);
    - a majority of independent directors, with requisite cooling-off periods;
    - at least four (4) independent directors appointed by the CSA;
    - a requirement that the CEO and Chair be independent directors; and
    - adequate representation of mutual fund dealer firms and of directors representing non-bank affiliated dealers.

- **Phase II** - Following the creation of the new single SRO, the CSA statutory regulators should determine whether additional firms directly regulated by the CSA, can be added to the oversight of the new SRO. Progress toward this goal should be assessed at the three (3) and six (6) year mark.
- The SROs' Principal Regulators (currently the Ontario Securities Commission and the British Columbia Securities Commission) be able to veto key appointments of the Chair and the first President and CEO, and term limits for those key appointments be set by the Principal Regulators. The veto would not apply to subsequent President and CEOs.
- Delegate registration functions for firms overseen by the new single SRO from the OSC to the new SRO.
- Remove the role of IIROC district councils in making registration decisions and similar gate-keeping functions.

### **Alignment of MFDA Modern SRO Proposal with Taskforce SRO Recommendations**

The MFDA first published its proposal for a Modern SRO in its [Special Report on Securities Industry Self-Regulation](#) (Special Report) in February 2020. In the Special Report, the MFDA proposes the creation of a new single SRO for all advisory firms through a process that is inclusive of all key stakeholders. The benefits of the MFDA's Modern SRO proposal include:

- Enhanced public confidence in the SRO regulatory framework
- The maintenance of access to advice for mass market Canadian investors
- Regulatory burden and cost reductions
- A level playing field where like conduct is subject to like regulation among all registrants engaging in similar activities
- The preservation of a diversity of dealer business models, including small and medium sized independent mutual fund firms

The Taskforce's recommendations to create a new single SRO to oversee all advisory firms, with a strengthened accountability framework, including its governance recommendation to include CSA nominees on the new SRO Board, are very much aligned with the MFDA's proposals set out in its Special Report.

### **Status of CSA review of the Self-Regulatory Organization Framework**

As part of the CSA's consultation it solicited feedback from stakeholders on how innovation and the evolution of the financial services industry has impacted the current regulatory framework, as well as specific comments on the issues and targeted outcomes set out in the consultation paper. The CSA review of the SRO framework and the 70-plus comment letters received from stakeholders is ongoing. As indicated in *CSA Consultation Paper 25-402*, once the CSA review is complete they will publish a paper with a CSA proposed option for Canada's SRO framework, and will seek further public comment.

## **MFDA Implementation Roadmap**

In order to support the ongoing CSA consultation and review process noted above, the MFDA has begun development of a design and implementation roadmap for the creation of a new SRO for Canada's securities industry, as originally outlined in its [Special Report](#). The MFDA's roadmap will offer tangible steps and realistic timelines for the creation of a new single SRO. Once complete, the MFDA will provide the roadmap to the CSA and all interested stakeholders to assist and inform the CSA's ongoing review of the national framework for securities self-regulation.

The MFDA looks forward to the publication of the CSA's proposal, and to working with the CSA, and all relevant stakeholders, towards implementing the CSA's vision of Canada's future self-regulatory framework.

If Members or stakeholders have any comments or questions, please contact Ian Strulovitch at 416-943-7425 or [istrulovitch@mfd.ca](mailto:istrulovitch@mfd.ca).

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