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MFDA Bulletin

Compliance

For Distribution to Relevant Parties within your Firm

Account Transfers - Summary of Comments

On June 1, 2020, the MFDA published for a 90-day public comment period, a Consultation Paper on Account Transfers, the purpose of which was to solicit feedback from all industry stakeholders in order to identify circumstances that contribute to delays in the transfer of assets and potential solutions to improve the account transfer process (see [Bulletin #0823-P](#)).

Submissions Received

The MFDA received 25 submissions from MFDA Members, Approved Persons, industry associations and mutual fund companies. We also consulted with other industry participants. We would like to thank the commenters for providing us with thoughtful and detailed comments.

Overall commenters strongly supported MFDA efforts and attention to understand and improve this process. Furthermore, they viewed the MFDA's solicitation of feedback as a significant opportunity to facilitate positive changes to streamline and create efficiencies in the account transfer process and ultimately, allow transfers to occur in a timely manner and without frustration or detrimental market impact for clients.

MFDA recognizes the complexities involved in transferring accounts, particularly as they often involve Member and non-Member institutions. Since the MFDA is limited to the regulation of its Members and advisors, implementation of MFDA rules and standards relating to account transfers will not single-handedly address the concerns identified by commenters. However, we will consider taking actions that are within our regulatory mandate and make recommendations to other stakeholders about how the transfer process can be improved within the mutual fund industry. A summary of comments received, MFDA comments and next steps are outlined below.

Background Information

Approximately 98% of MFDA Member assets under administration (“AUA”) are invested in mutual funds. Mutual funds can either be registered with fund companies in the name of the client (“client name”) or in the name of a nominee on behalf of a client, such as the Member or an intermediary (“nominee name”). Approximately 75% of mutual fund AUA of MFDA Members is registered in client name.

Nominee name transfers

For nominee name transfers, assets are held on behalf of the client in the name of the nominee. Transfer requests are initiated by a “receiving dealer”. The receiving dealer sends a transfer request directly to the delivering institution holding the client assets. The delivering institution may be another dealer (“delivering dealer”) or may be a financial institution. In the case of mutual funds, upon receipt of the transfer request, the delivering dealer would authorize the re-registration of mutual fund assets into the receiving dealer’s nominee name for transfers in kind or for transfers in cash, send the redemption proceeds to the receiving dealer.

Client name transfers

When mutual fund assets are registered in client name, there is no “delivering dealer”. Instead, since the mutual funds are registered on the books and records of the fund company and held in custody directly in the name of the client, all transfer requests must be sent to the relevant fund company. For transfers in kind, signed client instructions are sent to the fund company to request a change in dealer and representative codes on the fund company’s records. For transfers in cash, the fund company sends redemption proceeds to the receiving dealer or to another fund company. The dealer who is losing the client account is not involved in the transfer process and generally only becomes aware of the transfer when the transfer is complete.

The above descriptions of nominee and client name transfers are a simplification of the transfer process. In actuality, the transfer process can be much more complicated as it can involve other types of investment products, other financial institutions, different requirements for various account types, client name to nominee name transfers, etc.

Summary of Comments

The following is a summary of the comments received and the MFDA’s comments.

Responses to Specific Questions

- 1. What specific issues have you faced in relation to account transfers? Please specify if the issues experienced relate to transfers with Members or non-Member financial intermediaries (e.g. mutual fund companies, trust companies, etc.).***

Commenters provided details about various issues they face in relation to account transfers. These have been itemized below with specific comments for each:

i. Manual Process

Many commenters noted that a primary cause of delays in transfers is the reliance on manual processes. In this regard, it was stated that there is no commonly used electronic transfer mechanism that allows receiving and delivering institutions to exchange communication on the transfer of assets (including transfer forms, matching of receiving/delivery of assets and cash payments). Accordingly, the manual process causes delays as it involves the exchange of paper documentation, between Members and fund companies via fax or mail that may not be received at all or not received in a timely manner. Manual processes often lead to higher occurrences of Not in Good Order (“NIGO”) paperwork and the relinquishing institution may then require new or revised documentation with client authorization. One commenter estimated that 45% of all paper-based transactions are NIGO. Commenters further noted that where transfers are NIGO or non-wired, they may involve the exchange of physical paper requirements and possibly additional documents such as Letters of Direction (“LOD”) and Powers of Attorney (“POA”).

In light of the above, commenters also support a standardized electronic mechanism for processing client name account transfers. This could be either by establishing a new electronic solution or enhancing Fundserv’s existing system. One Member indicated that while an electronic system may not be feasible for certain MFDA Members in the near term, an electronic solution must form the basis of a long-term solution.

On the other hand, a few commenters had the view that an electronic solution should be at the discretion of the dealer as some dealers may have limited resources or experience, financial, operational or administrative challenges in implementing electronic processing. In the absence of mandating a specific electronic solution, commenters support a broader requirement for automation and the implementation of a rule which essentially sets out transfer timeframes and allows delivering dealers to rely on electronic instructions received from the receiving dealer, while indemnifying delivering dealers from claims, losses, damages, liabilities or expenses suffered by them arising as a result of reliance on such communication that is unauthorized, inaccurate or incomplete. The latter point could alleviate the requirement for paper transfer forms to be sent between dealers. However, such a rule would be limited in application to delivering institutions that are MFDA Members and often times the account is in client name and transfer request instructions must be sent directly to the fund company or other non-Members.

In addition, many commenters expressed concerns that cheques are still being sent by mail which is an inefficient way to facilitate cash transfers. Furthermore, the Covid-19 environment demonstrated that handling of documents and physical cheques remotely was problematic and added to an already lengthy process. Commenters strongly recommended that firms transition away from physical delivery of cheques and facilitate electronic funds transfers between institutions.

ii. Transfers Not In Good Order

Commenters expressed dissatisfaction with the inconsistent handling of transfers rejected as NIGO. While NIGOs can occur with both nominee and client name accounts, they seem to particularly relate to forms being submitted in paper format and lack of uniformity in the transfer forms used by the various entities within the industry. This contributes to errors in the completion

of forms by receiving Members and increased number of rejections by delivering institutions. More specifically, commenters noted that it is common for transfer requests to be rejected for reasons including: immaterial items on the forms being illegible or missing, incorrect plan types noted, missing bank check digits required for ATON electronic transfers, in cash/in-kind or full/partial transfer details not indicated on forms, requests for a wet signature instead of fax or electronic signature (“e-Signature”), requests for clients to sign transfer request forms in person and difficulties with completing forms due to inability to read/document areas that are in small font. Commenters also noted that delays are often extended due to transfers being rejected multiple times, rejections not being sent to the receiving institution in a timely manner or the receiving institution not being made aware that the transfer paperwork was NIGO. To address these rejected transfer requests, representatives may call, fax or email transfer requests multiple times yet receive no response. Ultimately, delivering institutions require that client consent be obtained again for any corrections on transfer forms. A commenter further claimed that lack of visibility on the status of transfers between institutions results in a lack of accountability for firms to complete transfers within a reasonable timeframe.

iii. Client Retention Efforts by Delivering Institutions

Commenters mentioned that delivering institutions may use tactics to preserve client accounts. These include refusing to transfer accounts until the delivering institution speaks to the client directly or in person to respect privacy concerns, disallowing transfers in kind, creating multiple rejects for NIGO rather than identifying these with the initial transfer request, noting that transfer requests were not received or they were sent to the wrong place and rejecting a transfer without a signature guarantee.

iv. Transfer Policies and Contact Information

As mentioned, there are many different Member and non-Member parties that may be involved in account transfers and where, how and which paperwork to send differs depending on whether the account is held in client name or nominee name and who the delivering institution is. Consequently, several commenters expressed frustration and challenges in retrieving accurate and reliable information on the various institutions’ account transfer processes and contact information. Commenters indicated that they often do not know how to send transfers (fax, email, mail, electronic), the documentation that is required, where to send transfers (centralized at Head Office versus a branch) or who to contact to follow up on transfers. Commenters further noted that there is no transparency on the status of account transfers (e.g., involving bank organizations and trust companies) and they have difficulty determining who to follow up with.

A common suggestion was to require transparency of contact information specifically relating to institutions’ transfer departments. Commenters proposed the creation of a repository/directory or alternatively, a requirement that institutions clearly display their transfer policies (including how and where transfers should be sent) and department contact information (name, phone number, email and mailing address for transfer requests) on their websites.

v. **Electronic Signatures**

Several commenters identified inconsistencies with the acceptance of e-Signatures by Members and non-Members. While in some cases, they only accept original transfer forms with clients' wet signature, others accept stand-alone e-Signatures or those accompanied by a signature guarantee. Another commenter revealed inconsistencies with the acceptance of e-Signatures within the same institution.

Overall, these commenters expressed that such inconsistencies can be minimized by accepting e-Signatures as opposed to requiring wet signatures in all cases. Moreover, a few firms reiterated that today's technology focused world and the current pandemic prove a need for adopting a paperless environment where digital solutions, including e-Signatures, are necessary and acceptable.

2. Have you identified specific types of account transfers that cause more challenges and/or do not occur in a timely manner (e.g., dependent on where and how the assets are held, account registration, type of product, electronic vs non-electronic processes)?

Account Registration

The majority of commenters specified that Locked-In plans, RDSPs and RESPs often take longer to transfer due to additional supplementary documentation required or payments that either must be paid prior to the transfer or calculated before year end (i.e., RRIF accounts). Commenters specifically noted that transfer of Locked in Plans could take 2-6 months and pension plans between 1-3 months. Some commenters recommended that existing electronic platforms be enhanced to include fields to capture additional details required when transferring specific account types and to allow electronic transmission of other required documents, such as POAs and LODs.

Types of Products

Commenters also attributed delays to the types of products being transferred. Specifically, one commenter noted that some products cannot be transferred through Fundserv (e.g., GICs, certain insurance products) and others indicated that segregated funds or investments that trade less frequently result in longer transfer times, as valuation dates are less immediate. Another commenter noted that certain investments are required to remain with the relinquishing institution as they cannot be transferred or the receiving institution does not want or cannot hold those investments.

Transfers In-Kind

Commenters stated that they experience extensive and time consuming delays when assets are transferred in kind, as the assets require re-registration at the fund company. This becomes more challenging when client name accounts have many security positions, positions are held at multiple fund companies or they are split into multiple accounts at the receiving institution. Commenters also noted that some funds can only be re-registered after month-end but they do not receive notice of this from fund companies. With regards to nominee name account transfers, a physical POA must be obtained from delivering dealers and sent to fund companies to re-register assets in the

name of the new nominee. Commenters questioned if positions could instead be automatically transferred through Fundserv.

3. Are there areas in the account transfer process that should be standardized or automated (e.g., specific timeframes, electronic processing)?

Standardize Timeframes for Account Transfers

Some commenters stated that generally, transfers from non-Members tend to take longer than between MFDA Member firms (particularly when assets are from non-Member financial institutions such as banks, credit unions and trust companies). However, commenters strongly expressed a need for standardization of transfer times for MFDA Members and non-Members to adhere to once a transfer request is received in good order. There were several comments suggesting that while standardized processing timelines should be developed, these could vary by account type and dealers could be given a reasonable opportunity to contact the client prior to initiating a transfer. Nonetheless, commenters believe that in order to reduce transfer delays and promote consistency in account transfers, specific timelines should be prescribed by the MFDA and to the extent possible, be uniform across the industry.

4. Do you have suggestions on how regulators can improve the account transfer process?

Given the prevalence of client name accounts, commenters noted the importance of the MFDA and the Canadian Securities Administrators (“CSA”) coordinating a regulatory response to paperless initiatives and stressed the need for a cost efficient automated process. Commenters further suggested establishing an industry task force to review the feedback and to come up with a standardized approach for all parties in the transfer process.

MFDA Comments and Next Steps

We appreciate the comprehensive comments that were provided. We received detailed comments from various industry participants who are eager to find solutions to improve the account transfer process. While the MFDA cannot implement standards for all industry participants, we will continue to consult and work toward harmonization and efficiency of the account transfer process.

Overall, we understand that delays occur with the transfer of various types of products. However, the MFDA comments below will focus on the transfer of mutual funds and outline further steps the MFDA can take to improve the account transfer process.

While we recognize that there are various factors that still contribute to transfer delays, we understand recent changes have been made by Fundserv that may improve the transfer process. This includes the launch of Fundserv’s cash transfer payment service called A\$M (Ad-Hoc Money Movement) in January 2021, which reduces the handling of physical cheques. In addition, through the Fundserv network dealers can already place wire order instructions for in-kind transfers between client name accounts. This process is fully automated and does not require the exchange of paper documents. As well, Fundserv’s Messageserv tool can be used as a secure means for its Members to send each other documentation and also provides an audit trail. As of June 18, 2021,

Members will also be able to attach documentation, through the Fundserv network, if required for in-cash transfers.

We understand that Fundserv's longer term plans include automation of current manual in-kind transfers of client and nominee name positions between dealers. Fundserv's enhanced automated solution should also eliminate the need for paper documentation. However, should documentation be required, this could also be supported electronically. As a result, the high number of NIGOs and challenges in identifying parties to contact regarding transfer requests or determining status of transfers, should be significantly reduced. In addition, we understand that future phases of A\$M will include inviting other parties such as GIC issuers, banks, insurance companies and pension funds to join Fundserv, thereby enabling the transfer of cash between such entities.

Transfer Timeframes

While the MFDA has principle-based rules in place that require its Members to facilitate the transfer of accounts in an orderly and timely manner, we intend to propose Rule amendments that further establish transfer timelines and standards for MFDA Members acting as receiving or delivering dealers. However, with client name mutual fund transfers, the delivering institutions who are not MFDA Members (e.g. delivering fund managers) are not subject to MFDA's regulatory jurisdiction. Accordingly, we will raise this matter with other regulators and industry associations like the Investment Funds Institute of Canada to consider comparable guidelines for investment fund managers, including guidance that will reduce the need for dealers to submit paper documents to fund companies.

Electronic Signatures

MFDA Rules allow for the use of electronic signatures and do not prescribe the format by which client signatures must be obtained. The use and acceptance of electronic signatures or requirement to obtain a signature guarantee is based on decisions made by individual industry participants. MFDA Rules however require Members and Approved Persons to act fairly, honestly and in good faith. Members who do not accept electronic signatures for account transfers would need to notify the receiving Member of their transfer requirements and facilitate the transfer on a timely basis. A Member would also have to apply its signature policy on a consistent basis for all account transfers, whether the account was received or delivered.

Standardized Forms & Central Repository

The use of different forms with varying formats may impact the quality of information provided to the delivering institution. Further, it would be useful to have a clear and readily accessible repository for transfer policies and transfer department contact information in order to expedite account transfers for clients. While we could explore mandatory forms and creating a centralized repository, such initiatives may not be necessary if automated processes can be implemented.

Client Retention Practices

Once a client has decided to transfer their account, it is reasonable to expect that delivering institutions act diligently and promptly in order to facilitate the transfer in a timely manner. We agree with commenters that upon receipt of client instructions, the delivering institution should review them to ensure they are in good order and if in good order, the delivering institution should promptly initiate the account transfer. If not in good order, the receiving institution should be notified of the reasons for the transfer request being NIGO. As noted, MFDA Rule 2.12.2 requires that Members act diligently and promptly to facilitate the transfer of accounts in an orderly and timely manner. This would entail an initial prompt review of the transfer request to determine if it is in good order. It would be inconsistent with Rule 2.12.2 if a delivering Member delayed a transfer request to allow it time to engage in client retention efforts.

We also believe that transfer timelines and the use of an automated platform that increases transparency of the process could mitigate delays arising from delivering institutions endeavoring to retain clients.

Automated processing

We believe the appropriate solution is for the industry to use an automated processing platform that can help mitigate delays resulting from manual processes and better facilitate the overall account transfer process.

We will continue to discuss the development of an automated platform for client name transfers with industry service providers and consider the feasibility of mandating transfer timelines and an automated account transfer process for all Members.

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