



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

Proposed Amendments to MFDA Rules 2.3.2, and 2.3.3 (Limited Trading Authorization) - Publication of CSA Notice of Approval / Non-Objection

In December, 2020 the MFDA published for comment proposed amendments which would delete MFDA Rules 2.3.2 and 2.3.3 (Limited Trading Authorization), and corresponding amendments to Rule 5.1 (Requirement for Records). See [Bulletin #0847-P](#).

The objectives of the proposed amendments are to reduce unnecessary regulatory burden, revise MFDA Rules to reflect the standardization of industry practices in this area, ensure that MFDA requirements in this area are consistent with those of other Canadian securities regulators, and to address the potential for trade execution delays related to the requirement to use a prescribed form of Limited Trading Authorization, having regard to challenges arising as a result of the COVID-19 global pandemic.

By deleting Rule 2.3.2, the MFDA is no longer requiring the use of a specified form of a Limited Trading Authorization (“LTA”). The purpose of the LTA is to limit liability to a fund manager where the fund manager relies on trade instructions transmitted by a mutual fund dealer for mutual funds registered in client name. Members and fund companies can continue to use an LTA for this purpose or can address their respective operational risks through other means. The amendments to MFDA Rule 5.1 were made to clarify the obligations of Members and Approved Persons to maintain evidence of client authorization.

On July 7, 2022, the CSA published a Notice of Approval / Non-Objection in respect of these changes. To view the CSA Notice, please go to: www.bcsc.bc.ca.

Changes to MSN-0035 Guidance

Guidance set out under MSN-0035 (Recording and Maintaining Evidence of Client Authorization and Trade Instructions) reminds Members and Approved Persons of the requirement to obtain client authorization and instructions for all trades and to maintain records in accordance with

MFDA Rule 5.1(b). Corresponding changes were made to the guidance set out under this Notice. Key changes are summarized below.

- **Requirement for Records:** currently, under Rule 5.1(b), reference is made to the requirement to maintain records in respect of Limited Trading Authorizations. This reference was deleted from the Rule, to conform to the deletion of Rules 2.3.2, and 2.3.3, as noted above. Under Rule 5.1(b), as revised, this recordkeeping requirement has been framed more broadly, and refers to records that provide “*evidence of client authorization*”. This revised text is reflected in the changes to MSN-0035.
- **Evidence of Client Authorization:** this new section expands upon existing guidance set out under the Notice, and notes that client authorization may be evidenced by a client signature (wet or electronic), on a trade order, or by a recorded/taped conversation with the client that confirms the client’s trade instructions. Where a Member wishes to act on a client’s verbal instructions without taping or recording conversations, the Member must maintain a detailed and accurate record of client instructions, including how the instructions were given (e.g. by telephone or in person), and have a process to verify the client’s identity. Members may also accept email instructions from a client and follow up with a telephone call to verify the client’s identity and confirm the authenticity of the client’s instructions. In addition, a Member may enter into a written agreement with the client in which the client authorizes the Member to act on the client’s verbal instructions (e.g. a Limited Trading Authorization for client name positions). As set out under the revised Notice, the MFDA does not prescribe a form for this purpose.