



Governance Committee

Terms of Reference

A. OVERVIEW AND PURPOSE

1. The Governance Committee (the "Committee") is appointed by and responsible to the Board of Directors (the "Board") of the Mutual Fund Dealers Association of Canada (the "Corporation"). The Committee is responsible for:
 - (i) ensuring that an appropriate governance system is in place for the Board's overall stewardship responsibility and the discharge of its obligations to the stakeholders of the Corporation;
 - (ii) the nomination process regarding nominees for directors of the Board;
 - (iii) on a periodic basis assessment of the overall performance of the Board and the committees of the Board;
 - (iv) the consideration of applications for Membership in the Corporation; and
 - (v) the performance of such other duties as the Board may delegate or direct from time to time.

B. MEMBERSHIP & ATTENDANCE AT MEETINGS

1. The membership of the Committee shall be composed of three Public Directors and two Industry Directors (as those terms are defined in the By-laws of the Corporation), which Industry Directors shall be officers or employees of a Member of the Corporation or of an affiliate or associated corporation of a Member.
2. The Chair of the Committee shall be one of the three Public Directors as selected by the Board.
3. Attendance by invitation at all or a portion of Committee meetings is determined by the Committee Chair or its members, and would normally include the Chief Executive Officer and such other officers or support staff as may be deemed appropriate. All matters dealt with by the Committee shall be treated as being confidential, subject to reporting to the Board or as the subject matter otherwise requires.

C. DUTIES AND RESPONSIBILITIES

Board Nominating Process

1. The Committee shall identify and recommend to the Board Public and Industry Directors for election to the Board in accordance with the By-laws. Subject to approval by the Board and in a manner in accordance and consistent with the By-laws of the Corporation, the Committee shall:

- (a) determine the criteria, profile and qualifications of new director nominees for election to the Board or to fill vacancies on the Board and, where possible, to provide that the diversity of Members and the public interest is appropriately represented. In this regard, the following factors will be determinative:
- (i) appropriate regional representation across Canada, provided that at any time (subject to the occurrence of vacancies) not less than four of the directors shall represent regions other than the Provinces of Ontario and Quebec;
 - (ii) five of the Industry Directors shall be officers or employees of a Member or of an affiliate or associated corporation of a Member;
 - (iii) no Member, or affiliate or associated corporation of a Member, shall have more than one director, officer, employee or other representative of the Board; and
 - (iv) the primary criteria regarding the diversity of the Membership of the Corporation shall be regional / geographic considerations, size of business, concentrated business or financial relationships with other Members, type of business and ownership structure including, without limitation, small and medium-sized Members according to assets under administration and number of approved persons and locations;
 - (v) among the members of the Board over time and, to the extent practicable, at any one time, there shall be an appropriate mix of skills, competencies, individual diversity and characteristics to contribute to a well-functioning Board able to serve its mandate;
 - (vi) at all times (subject to accommodating staggered terms pursuant to the By-laws and filling unexpected vacancies), one Industry Director shall have been nominated and elected to the Board pursuant to the Member selection process set out in Schedule A to these Terms of Reference;
 - (vii) in the case of Public Directors, each new director nominee would have qualified as a Public Director pursuant to the By-laws of the Corporation for a period of at least one year prior to the commencement of the nominee's term of office, provided that the Committee may determine that a longer period is warranted in any particular circumstance;
 - (viii) in the case of all Industry Directors, a new director nominee is not and, for a period of five years prior to the commencement of the nominee's term of office has not been, a respondent in or the subject of a compliance review, enforcement proceeding or investigation (by the Corporation or another authority or regulator having jurisdiction) in which an adverse finding or result in respect of the nominee has caused or would cause a reasonable person to consider the nominee unfit to act as a director of the Corporation or that the

reputation of the Corporation has been, or could be, diminished in a material way; and

- (ix) in the case of all Directors, each new director nominee shall be:
 - (A) able to act free of conflicts of interest that may, or may appear, to impair his or her independent judgement or ability to act in the best interests of the Corporation, all of its Members and the public, by reason of any material business or other relationship; and
 - (B) reasonably expected to contribute to the ability of the Board to perform its duties effectively;

but subject to the criteria in clause (vii) above in respect of Public Directors and the interest of Industry Directors in performing a regulatory role in the industry in which they participate.

- (b) identify, interview and recruit such new director nominees as may be required pursuant to the process set out in Schedule A to these Terms of Reference; and
 - (c) recommend to the Board the directors to be nominated for election in accordance with the Board nominating process provided for in these Terms of Reference. In the absence of special circumstances as determined by the Board, it is the expectation that the recommendation of the Committee will be accepted by the Board.
2. A Committee member whose term of office is scheduled to expire, and who is eligible to serve another term of office on the Board, shall recuse him/herself from participation in the Board nominating process for their Director category and the Board shall select an alternate Director to replace that member.
 3. In support of the Board nominating process as described herein, the Committee will cause to be prepared a matrix or other comparable document (a "Skills Matrix") which sets out: (i) the collective skills and qualifications that, in the reasonable opinion of the Committee, the Board (the "Board Skills and Qualifications") should have, and (ii) the skills and qualifications of each Director and of each nominee for Director by reference to the Board Skills and Qualifications. The Committee will cause the Skills Matrix to be updated annually for the Committee's review.

Governance

1. On an annual basis, following the Annual Members' Meeting, to review and make recommendations to the Board on the appointment or re-appointment of the Chair and Vice-Chair of the Board.
2. To ensure that an appropriate orientation and education program is in place for new directors.
3. To ensure that the Directors' Handbook is maintained.

4. At least annually, or as required, to review and recommend to the Board the need for Board committees and their duties and responsibilities, composition and members, with a view that Board committees must have appropriate representation of Public and Industry Directors.
5. Every two years, or as required, to conduct an assessment of the effectiveness of the Board and the Committees of the Board, and to report on such assessment to the full Board.
6. To lead the process, when required, to identify a candidate or candidates for appointment to the office of Chief Executive Officer.
7. To review and make recommendations to the Board as required on significant governance issues relating to functional and operating matters pertaining to the Board, including but not limited to:
 - (a) monitoring, reviewing and updating the ongoing development and maintenance of the Corporation's approach to governance matters, including a statement of governance guidelines;
 - (b) reviewing the basis on which candidates are nominated and elected to the Board; and
 - (c) considering new matters or guidelines established by a regulatory body.

General

1. To review and make recommendations to the Board in respect of the compensation and expense policy for Directors, as well as the objectives, performance review, compensation, benefits and pension, entitlements of senior management of the Corporation.
2. To consider applications for Membership in the Corporation in accordance with the By-laws and either:
 - (a) approve the application;
 - (b) approve the application subject to terms and conditions; or
 - (c) refuse the application.
3. To consider at the request of the Board, or of a Director any actual or potential conflicts of interest or other issue involving a Director's interest in a contract, transaction or activity, an appointment or commercial arrangement, and to advise the Chair of the Board on the resolution of such actual or potential conflict of interest or other matter.
4. To consider any other matter which, in the opinion of the Committee or at the request of the Board, would assist the directors to meet their responsibilities in regard to governance matters.
5. To review annually the Committee's terms of reference and to recommend any required changes to the Board for approval.

6. To provide reports and minutes of meetings to the Board.
7. All action by the Committee shall be reported to the Board, in accordance with section D.9 and shall be subject to revision or alteration by the Board.

D. MEETINGS

1. Meetings of the Committee are held as required but at least twice each year.
2. Meetings may be called by the Committee Chair, the Chief Executive Officer or by a majority of the Committee members, and usually in consultation with the management of the Corporation.
3. Meetings are chaired by the Committee Chair or, in the Chair's absence, by a member chosen by the Committee from among themselves.
4. A quorum for the transaction of business at any meeting of the Committee is two Public Directors and one Industry Director.
5. The Secretary of the Corporation shall provide for the delivery of notices to the Committee members at least seven (7) days, and agendas and supporting materials at least five (5) days, prior to the date of the meeting, except in unusual circumstances, and provided that notice or the time for notice or delivery of materials may be waived or abridged, as the case may be, at any time with the consent of the persons entitled thereto.
6. Meetings may be conducted with members present, or by telephone or other communications facilities which permit all persons participating in the meeting to hear or communicate with each other.
7. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
8. The Secretary of the Corporation shall be the secretary for the Committee and keep a record of minutes of all meetings of the Committee.
9. Draft minutes of the meetings of the Committee shall be distributed as soon as practicable following each meeting for review, comment and approval, following which copies shall be sent to all members of the Board.

E. NOTICE OF AMENDMENTS

1. The Secretary of the Corporation shall notify the Recognizing Regulators in writing of any proposed amendments to the Terms of Reference at least 30 days prior to implementation.

**SCHEDULE A TO TERMS OF REFERENCE
of
MFDA GOVERNANCE COMMITTEE**

The following is a description of the process to be followed by the Committee and the Board by which nominees for Public and Industry Directors of the Corporation will be identified, assessed and nominated for election at the Annual General Meeting of Members each year. The timeframes indicated are illustrative and the time in which actual steps in the process are taken may vary slightly each year depending on the particular circumstances.

Action	Time
Committee meets to determine likely vacancies at the AGM later in the year (including any vacancy required to be filled by the Member selection process) and to consider an appropriate schedule and process for director nomination including approval of draft initial notice to Members	Early June
Initial notice to be sent to Members which will describe the nomination process and criteria for directors, solicit recommendations of candidates for nomination as directors, provide profile of current directors and include extracts from the relevant By-law and Committee Terms of Reference	Mid June
Reminder notice to solicit recommendations sent to Members and recommendations received by deadline at end of July	July
Committee receives and screens recommended candidates for:	August
(a) legal qualification (age, mental capacity and not bankrupt);	
(b) prescribed criteria (in the By-laws, orders and the Terms of Reference) for Industry Directors (employed / associated with a Member) and for Public Directors (persons excluded and cooling-off period);	
(c) material enforcement proceedings; and	
(d) conflicts of interest	
See item 1(c) under Board Nominating Process	
List of Eligible Candidates. Committee prepares a list of all eligible recommended Industry and Public Director candidates following the foregoing assessment process. The names of all such candidates shall be published and sent to each Member together with, if applicable, a ballot pursuant to the Member selection process below.	September
Assessment Process. The Committee assesses all eligible candidates with a view to preparing its recommended list of	

Action

Time

nominees to fill expected vacancies on the Board. In preparing its list of nominees – and after taking into account the requirement for one Industry Director being selected as a nominee by the Members – the Committee shall consider all eligible candidates according to the criteria and factors for individual directors and the composition of the Board set out in the By-laws and these Terms of Reference. The expectation of all nominees, regardless of the manner in which they are selected, is that they serve the public interest and the best interests of the Corporation and all of its Members without regard to any particular constituency of Members.

The Committee shall be entitled to refer to the ballot results of Members for selecting nominees for Industry Director even if there is, or will be, an Industry Director nominee selected by Members as described.

Member Selection Process. In order to ensure that one Industry Director will have been nominated by the Members and elected to the Board, the Committee shall provide to Members an opportunity to indicate by ballot their choice for such Industry Director nominee as and when a vacancy in such position arises. If a vacancy of such Industry Director will arise (or have arisen as a result of resignation or otherwise) to be filled at an AGM, the names of all eligible Industry Director candidates will be included on a ballot form sent to Members with the request that Members designate from them their choice of person to be recommended for nomination as Industry Director by the Committee. Members may designate one person for such vacancy as it may arise. The Committee will recommend for nomination as Industry Director the person with the highest number of designations.

Board of Directors meets to approve matters relating to the AGM including meeting materials and the list of candidates recommended by the Committee as nominees to be elected at the AGM

By the end of October

See item 1(c) under Board Nominating Process

Notice of AGM and related materials including slate of nominees to fill Industry and Public Director vacancies sent to Members (at least 30 days prior to the AGM)

Early November

AGM is held and Members elect Industry and Public Directors to fill vacancies arising at AGM according to directors nominated by the foregoing process