

# **2012 MFDA Annual General Meeting**

Mark Gordon

President and Chief Executive Officer

**November 29, 2012**

Good Morning.

This is the first year in 14 that Larry Waite is not here with us at the Annual General Meeting. As you know, Larry retired this year. I would like to acknowledge Larry's contribution to both the MFDA and this industry. I know all of us here today are grateful to Larry and we all wish him well.

## **Industry Snapshot**

I would like to start by providing a brief snapshot of the industry. We currently have 120 Members with over 80,000 Approved Persons operating in 20,000 branch locations across Canada. Our Members manage over \$427 billion of client assets. 95% of these assets are invested in mutual funds held in 15 million retail accounts. Mutual funds are the most commonly held investment product in Canada. Two recent surveys revealed that 62% of Canadians with investments own mutual funds and, in addition, mutual funds make up the largest share of investable assets of the typical Canadian household. Clearly, our main focus at the MFDA is the regulation of the retail distribution of a product that millions of Canadians own. The job we do at the MFDA, and the job you do as dealers, directly affects millions of Canadians. Our interests, the MFDA's and yours, are aligned here. We both want what is best for Canadian investors and we both want a strong and healthy industry in Canada.

## **Highlights of Past Year**

We had two significant developments this past year. As I mentioned, the key event for us was Larry Waite's retirement. The other major development was the Strategic Plan.

I would like to make a few comments on what you can expect from me and the rest of the management team. There are no surprises here. Our singular focus is the execution of our Strategic Plan. At this time last year, we were in the middle of developing the Plan and consulting with all of our stakeholders as to what areas we should be focusing on. We have now completed the Plan and are implementing it. Over the past six months, I have discussed the Plan with many of you and your staff. However, this AGM is the first opportunity to discuss it with the Members at large, so I would like to review it again. It is important. It is our roadmap and it is worthy of repeating.

As I mentioned, we consulted broadly with all our stakeholders as to what we should be focusing on and four key themes emerged:

### **More Consultation**

- 1) More consultation was requested by all stakeholders: Members, the CSA and investors.

### **More Collaboration**

- 2) Our stakeholders: investors, Members and our fellow regulators also requested more collaboration on regulatory issues and initiatives. With

respect to Members, collaboration means working with our Members and helping them comply. That is what Members have asked us to do.

### **Enhanced Education and Training**

- 3) Enhanced education and training was another theme that emerged. Members would like more guidance, education and assistance from MFDA staff. In addition, investors requested that we explore ways to get more involved in investor education initiatives.

### **Development and Application of MFDA Rules**

- 4) The fourth theme related to the development and application of our Rules. Members requested two things. First, when developing, applying and enforcing Rules, Members asked that we ensure our approach is balanced, practical and reasonable. Second, Members asked for flexibility. Specifically, Members asked us to recognize that there may be more than one way to achieve the regulatory objective behind a Rule. On this second point, we now have 14 years of experience with our Rules and your operations, and we do recognize there is more than one way to comply with a Rule in many cases. We also recognize that many Rules are not “one size fits all” and we have to apply them in a way that makes sense given the firm’s operations. All of these themes are critical and they are all reflected in our Plan.

Our vision in the past was about “raising the standard” of regulation. We needed to get the industry to a certain basic level of regulatory compliance. The CSA had one simple goal – to get some core regulation around this industry. This is what the MFDA and its Members were asked to do and

we have done it. This industry has come a long way over 14 years. Some of the key areas where this industry has made significant regulatory improvements include: suitability and Know-Your-Client, Know-Your-Product and due diligence, supervision and supervisory structures, complaint handling, outside business activities and referral arrangements, back-office systems and the list goes on. This is due, in large part, to your efforts and willingness to embrace regulation.

Together, we have built a solid regulatory foundation and the level of regulatory compliance of this industry in Canada has increased greatly. Our goal now is to maintain it, promote it and foster it. Thus, our new vision focuses on “promoting a culture of compliance”.

This Plan recognizes that, just as the state of compliance of our Members has evolved, our approach to regulation should also evolve. For many of us, this evolution of our regulatory approach in fact constitutes a change to our regulatory approach. Indeed, our Plan recognizes this point, which is why it is called a “roadmap for change”. We acknowledge that, in the past, we have been somewhat prescriptive, but that was necessary in order to build the solid regulatory foundation that we have today. Now we are able to be more principle-based and that change has already begun and will continue. Change for any of us, especially a regulator, can sometimes be difficult to embrace and difficult to effect. However, I assure you, we are and we will continue to make this change because it is right. The change we are talking about is both natural and appropriate. It is a natural part of our evolution as a mature regulator with 14 years of experience and for an industry that has embraced self-regulation. Moreover, it is certainly

appropriate given the increase in the level of regulatory compliance in this industry in Canada.

As part of this Plan, one of the things we want to do is open up channels of dialogue more broadly and collaboratively with you. We want to have open and constructive discussions on compliance processes that would comply with our Rules and discuss thoughts you have and thoughts we have. I cannot guarantee that we will always agree on what needs to be done to ensure compliance; however, I can guarantee that we will do our best to be reasonable, practical and balanced. I can also guarantee that we will be fully accessible to you, and that includes me.

Our Strategic Plan recognizes the alignment of our interests that I mentioned earlier. We all want what is best for Canadian investors and we will pursue that goal by promoting a strong culture of compliance, which, in turn, will help to ensure a strong and healthy industry in Canada.

### **Training and Assistance**

Our Plan places a large focus on providing assistance, guidance and education to you. Please keep in mind that we are a resource for you. Our assistance can be as informal as a simple phone call or a face-to-face meeting with you. Many of our staff spend a lot of time on the phone with Members trying to work out practical solutions to issues, and we want to continue to encourage this open dialogue. Our assistance can also be more formal, such as a presentation to you and your staff at your offices or one of your training events. Many of you have already taken advantage of this and we have found these sessions very positive. Over the past year, we have delivered more than 25 education and training presentations to

Members, their supervisory personnel and Approved Persons on such topics as outside business activities, seniors' issues, branch supervision, complaint handling and processes and risk management for Approved Persons. If you would like us to do something similar for you, please let us know. As far as topics, we are completely open.

### **Policy Issues Facing the Industry**

There are some big policy issues that the industry will be facing in the next year, such as the CSA fiduciary duty paper issued last October and the CSA fund fees paper, which will be issued shortly. We have to be aware of and prepare for policy debates on these issues. For instance, with respect to the potential introduction of a fiduciary duty standard, it is important to consider how it would apply in the retail context and fully assess its potential impact on retail clients. Also, more practical questions come to mind, such as how it would practically apply to a limited license dealer? How would it apply to a dealer with a proprietary shelf, whether a bank or non-bank dealer? These are just a few examples of real, practical issues that will need to be explored and addressed. We will continue to monitor and participate in discussions on these issues. While we do not know where these CSA consultations will ultimately lead us or what, if any, regulatory change will result, what we do know and what I can tell you about is our focus at the MFDA this year.

Our focus and our regulatory efforts are a little more practical and tangible and definitely more immediate. While we believe our current Rule Book is sound, we recognize that we can always improve it. We also acknowledge that the current suitability regime sometimes does not always result in the

desired outcome, namely a suitable investment, and we will study this and determine how we can make it better. Rather than developing new Rules, we are looking at how to achieve better results in the application of existing Rules and we will do this through more guidance, education, practical tools and assistance for Members as well as investors.

Briefly, I would like to comment on two other policy issues that will be facing us in the next year. As you know, this year we issued a consultation paper on supervisory structures and, specifically, the branch manager requirement. We recognize the desire among Members for more flexibility with respect to branch supervisory structures and, as a result of the improved state of compliance of our Members, we are now able to consider this. Our Board yesterday approved a draft set of Rules that will accommodate a more flexible supervisory branch supervision structure and we expect to have this published by the CSA for comment in the next few weeks. We encourage you to engage and submit a comment letter.

Finally, I would like to make a few comments on the CSA's Client Relationship Model Phase 2 initiative. I think we all support the objective of this project to ensure that clients receive clear and complete disclosure of cost and charges and meaningful performance reporting. Like you, we do not yet have full clarity or certainty as to what will ultimately come out of this project. Whatever the result, our approach will not simply be to monitor for strict compliance and cite deficiencies. Rather, our approach will reflect our Strategic Plan. We will work with Members and help them comply and offer practical solutions that reflect operational challenges. You are not alone here. Our current membership wants to comply and, in many cases,

the question is how to practically achieve this compliance in light of operational challenges and that will be our focus.

I would like to close with this comment. As I just mentioned, we believe our Members want to comply with the Rules and many simply want some assistance on how to practically achieve this compliance. We also believe our role as a mature regulator is not just to develop and enforce compliance with Rules. As a mature regulator, we recognize our job is broader than that. We also need to ensure that Members understand how they can comply and understand the principles that apply under the Rules. That is why the MFDA has been and will continue to be collaborating with you and providing guidance, education and assistance to help avoid serious compliance deficiencies caused by dealers not knowing how they can comply with the Rules. That is our regulatory approach. That is our regulatory philosophy. We believe it is appropriate and we know it is effective. And most importantly, we believe it is in the best interests of both Canadian investors and this industry in Canada.

Thank you.