

# MUTUAL FUND DEALERS ASSOCIATION OF CANADA

## PROPOSED AMENDMENTS TO MFDA RULE 1.1.2

### (COMPLIANCE BY APPROVED PERSONS)

#### I. OVERVIEW

##### A. Current Requirements

###### Rule 1.1.2 (Compliance by Approved Persons)

MFDA Rule 1.1.2 currently requires that each Approved Person who conducts or participates in any securities related business in respect of a Member in accordance with Rule 1.1.1(c)(i) or (ii) comply with the By-laws and Rules as they relate to the Member or such Approved Person.

###### MFDA Terms and Conditions of Recognition

Section 7(A) of the MFDA's Terms and Conditions of Recognition as a Self-Regulatory Organization provides that:

*“ the MFDA shall enforce, as a matter of contract between itself and its members, compliance by its members and their Approved Persons with the rules of the MFDA and the MFDA shall cooperate with the Commission in ensuring compliance with applicable securities legislation relating to the operations, standards of practice and business conduct of members and Approved Persons, without prejudice to any action that may be taken by the Commission under securities legislation.”*

Section 10 (A) of the MFDA's Terms and Conditions of Recognition as a Self-Regulatory Organization provides that:

*“the MFDA shall, subject to the terms and conditions of its recognition and the jurisdiction and oversight of the Commission in accordance with securities legislation, establish such rules as are necessary or appropriate to govern and regulate all aspects of its business and affairs and shall in so doing:*

*(i) seek to ensure compliance by members and their Approved Persons with applicable securities legislation relating to the operations, standards of practice and business conduct of the members. [...]*”

##### B. Reasons for Amendments

Rule 1.1.2, in its current form, makes reference to Member and Approved Person compliance with MFDA By-laws and Rules, but does not explicitly state that compliance is also required with applicable securities legislation relating to the operations, standards of practice and business conduct of MFDA Members and Approved Persons. The proposed amendments would provide clarification in respect of this matter by conforming the wording of Rule 1.1.2 to similar wording set out in the MFDA Terms and Conditions of Recognition.

### **C. Objectives**

The objective of the proposed amendments is to ensure that Rule 1.1.2 is consistent with corresponding wording in the MFDA Terms and Conditions of Recognition, in expressly requiring compliance with applicable securities legislation relating to the operations, standards of practice and business conduct of MFDA Members and Approved Persons.

### **D. Effect of Proposed Amendments**

The proposed amendments would clarify the wording of Rule 1.1.2 so that it is consistent with corresponding provisions in the MFDA Terms and Conditions of Recognition.

## **II. DETAILED ANALYSIS**

### **A. Proposed Amendment**

The proposed amendments to Rule 1.1.2 would clarify that:

- Members must comply with the By-laws, Rules and applicable securities legislation relating to the operations, standards of practice and business conduct of Members; and that
- Each Approved Person who conducts or participates in any securities related business in respect of a Member in accordance with Rule 1.1.1(c)(i) or (ii), must comply with the By-laws, Rules and applicable securities legislation relating to:
  - the operations, standards of practice and business conduct of such Member; and
  - such Approved Person's operations, standards of practice and business conduct.

Attached, as Appendix "A" to this Notice, is a blacklined version of Rule 1.1.2, which shows changes made to the original version.

### **B. Comparison with Similar Provisions**

Both MFDA and IIROC rules and each SRO's rulemaking ability are subject their individual Terms and Conditions of Recognition, each of which require the SRO to establish rules that ensure compliance with not only SRO rules, but also securities legislation.

### **C. Issues and Alternatives Considered**

No other issues or alternatives were considered.

### **D. Systems Impact of Amendment**

It is not anticipated that the proposed amendments will have a material impact upon Members' systems, impose any material burden or constraint on competition or innovation, impose any material costs or restrictions on the activities of market participants, or result in any material increased costs of compliance.

#### **E. Best Interests of the Capital Markets**

The proposed amendments were approved at the June 6, 2019 meeting of the MFDA Board of Directors. The Board has determined that the proposed amendments are consistent with the best interests of the capital markets.

#### **F. Public Interest Objective**

The proposed amendments: (i) will clarify requirements under Rule 1.1.2, (ii) will ensure the wording of the Rule is consistent with similar provisions in the MFDA Terms and Conditions of Recognition, and (iii) are in the public interest.

#### **G. Classification**

The proposed amendments have been classified as a Public Comment Rule proposal.

### **III. COMMENTARY**

#### **A. Filing in Other Jurisdictions**

The proposed amendments will be filed for approval with the Alberta, British Columbia, Manitoba, Nova Scotia and Ontario Securities Commissions, the New Brunswick Financial and Consumer Services Commission, the Superintendent of Securities of Prince Edward Island, and the Saskatchewan Financial and Consumer Affairs Authority.

#### **B. Effectiveness**

The proposed amendments are simple and effective.

#### **C. Process**

The proposed amendments were reviewed at the April 26, 2019 meeting of the MFDA Policy Advisory Committee, the May 23, 2019 meeting of the Regulatory Issues Committee of the MFDA Board of Directors, and approved by the full MFDA Board of Directors at its June 6, 2019 meeting. In approving the proposed amendments, the MFDA has followed its established internal governance practices and has considered the need for consequential amendments.

#### **D. Effective Date**

The proposed amendments will be effective on a date to be subsequently determined by the MFDA.

#### **E. Exemption from Requirements under Securities Legislation**

The proposed amendments do not involve a Rule that the MFDA, its Members or Approved Persons must comply with in order to be exempted from a securities legislation requirement.

#### **F. Conflict with Applicable Laws or Terms and Conditions of Recognition Order**

The proposed amendments do not conflict with applicable laws or the Terms and Conditions of a Recognizing Regulator's Recognition Order.

#### IV. SOURCES

- MFDA Terms and Conditions of Recognition
- MFDA Rule 1.1.2 (Compliance by Approved Persons)

#### V. REQUIREMENT TO PUBLISH FOR COMMENT

The MFDA is required to publish for comment the proposed amendments so that the issues referred to above may be considered by the Recognizing Regulators.

**The MFDA has determined that the entry into force of the proposed amendments would be in the public interest and is not detrimental to the capital markets. Comments are sought on the proposed amendments.** Comments should be made in writing. One copy of each comment letter should be delivered within 90 days of the publication of this notice, addressed to the attention of:

Paige Ward  
General Counsel, Corporate Secretary and Vice-President, Policy  
Mutual Fund Dealers Association of Canada  
121 King St. West, Suite 1000  
Toronto, Ontario M5H 3T9  
[pward@mfd.ca](mailto:pward@mfd.ca)

and one copy addressed to the attention of:

Anne Hamilton  
Senior Legal Counsel  
British Columbia Securities Commission  
701 West Georgia Street  
P.O. Box 10142, Pacific Centre  
Vancouver, British Columbia, V7Y 1L2  
[ahamilton@bcsc.bc.ca](mailto:ahamilton@bcsc.bc.ca)

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the MFDA website at [www.mfda.ca](http://www.mfda.ca).

Questions may be referred to:

Paige Ward  
General Counsel, Corporate Secretary and Vice-President, Policy  
Mutual Fund Dealers Association of Canada  
(416) 943-5838

DM# 679358

## Appendix A

### **1.1.2 Compliance by Members and Approved Persons**

*(a)* Each Member shall comply with the By-laws, Rules and applicable securities legislation relating to the operations, standards of practice and business conduct of Members.

*(b)* Each Approved Person who conducts or participates in any securities related business in respect of a Member in accordance with Rule 1.1.1(c)(i) or (ii) shall comply with the By-laws, and Rules and applicable securities legislation as they relate to the Member or such Approved Person relating to:

*(i)* the operations, standards of practice and business conduct of each Member; and

*(ii)* such Approved Person's operations, standards of practice and business conduct.